

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Company recognises that good corporate governance is vital to the success and the sustained development of the Group.

The Company aims at complying with, where appropriate, all code provisions of the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the CG Code of the Listing Rules. The Company has applied and complied with most of the applicable Code Provisions throughout the year ended 31 March 2007 and up to the date of publication of the annual report, except for certain deviations from the Code Provisions in respect of Code Provisions A.2.1 and A.4.1, details of which are explained below.

## Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2007.

## Board of Directors

### *Board composition and practice*

As at the date of this annual report, the Board of the Company comprises five executive directors and three independent non-executive directors, which includes:

#### *Executive directors:*

Chan Sik Ming, Harry (*Chairman & Chief Executive Officer*)

Motofumi Tsumura

Hiroto Sasaki

Hiroyuki Kikuchi

Au-Yeung Wai Hung

#### *Independent non-executive directors:*

Kohu Kashiwagi

Chan Yuk Tong

Li Chi Kwong

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## Board of Directors *(Continued)*

### *Board composition and practice (Continued)*

The biographical details of the Board members are set out on pages 3 and 4 of this annual report.

The Board is responsible for the strategic planning for the Group and the monitoring of the Group's operating performance while day-to-day management of the Group is delegated to the management team.

The Board supervises the management of business and affairs of the Group. It has established self-regulatory and monitor mechanisms to ensure that effective corporate governance is practised. The Board oversees the Group's overall strategic plans, reviews and approves the interim and annual reports, declaring dividend and ensuring good corporate governance and compliance, monitor the performance of the management and reviewing and approving any material acquisition and disposal of assets.

The Company complies with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. Moreover, each independent non-executive director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the businesses of the Group.

## Chairman and Chief Executive Officer

According to the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company does not have a separate Chairman and CEO, and Mr. Chan Sik Ming, Harry currently holds both positions. The Board believes that vesting the roles of both Chairman and CEO in the same person ensures consistent leadership within the Group and enables more effective and efficient planning of long term strategies and implementation of business plans. The Board believes that the balance of power and authority will not be impaired and is adequately ensured by an effective Board which comprises experienced and high calibre individuals with a sufficient number thereof being independent non-executive directors.

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## Non-Executive Directors

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term subject to re-election.

The independent non-executive directors of the Company do not have a specific term of appointment, but are subject to retirement by rotation and re-election in accordance with the relevant provisions of the Company's bye-laws.

## Re-election of Directors

Under the Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's private act known as "The Juko Laboratories Holdings Limited Company Act 1990", which is an Act of the Company's former name of Juko Laboratories Holdings Limited when it was first established, the Chairman of the Company is not required to be subject to rotation in accordance with the bye-laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company, Mr. Chan Sik Ming, Harry has agreed to retire on a voluntary basis at least once every three years. He will also retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

## Board Committees

### *Remuneration Committee*

The Remuneration Committee was established on 22 December 2005 and comprises five members, the majority of whom are independent non-executive directors and its members are:-

#### *Independent non-executive directors:*

Chan Yuk Tong (*Chairman of Remuneration Committee*)

Kohu Kashiwagi

Li Chi Kwong

#### *Executive directors:*

Chan Sik Ming, Harry

Au-Yeung Wai Hung

The Remuneration Committee is responsible for formulating formal and transparent remuneration policies, and for approving the remuneration packages of directors. In determining the emolument payable to directors, it takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the justification of performance-based remuneration.

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## Board Committees *(Continued)*

### *Remuneration Committee (Continued)*

For the year ended 31 March 2007, one Remuneration Committee meeting was held to discuss and approve the directors' performance bonus for the year 2006 and advise on the remuneration of independent non-executive directors. In developing remuneration policies and making recommendation as to the remuneration of the directors, the Remuneration Committee takes into account the performance of the Group as well as those individual directors.

### *Audit Committee*

The Audit Committee of the Company was established in 1999 and comprises the three independent non-executive directors of the Company at present. The Board considers that each Audit Committee member has broad commercial experience and technical knowledge and there is a suitable mix of expertise in business, accounting and financial management within the Audit Committee. The composition of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. Its members are:-

#### *Independent non-executive directors:*

Chan Yuk Tong (*Chairman of Audit Committee*)

Kohu Kashiwagi

Li Chi Kwong

The Audit Committee's primary responsibility includes reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee also acts as a communication channel between the Company's external auditors and management for all essential issues identified during the course of the audit.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2007 and agreed with all the accounting treatments which have been adopted therein.

Ernst & Young is the Company's external auditors. The Audit committee is responsible for considering the appointment, remuneration and terms of engagement of the external auditors.

During the year ended 31 March 2007, the services and associated remuneration provided by Ernst & Young to the Group were as follows:

	<b>Group</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Audit services	<b>625</b>	585
Other services	<b>34</b>	55

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## Board Committees *(Continued)*

### *Audit Committee (Continued)*

The Audit Committee is of the view that the auditors' independence was not affected by the provision of these non-audit related services.

The Audit Committee has recommended to the Board of Directors that Ernst & Young be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

## Directors' Attendance at Board, Audit Committee and Remuneration Committee Meetings

There were five board meetings, two audit committee meetings and one remuneration committee meeting held during the year ended 31 March 2007. The Board meets regularly and additional meetings are convened when deemed necessary by the Board.

The names and individual attendance of each director at each board, audit committee and remuneration committee meetings are set out below:

<b>Name of director</b>	<b>Attendance/ Number of Board Meeting</b>	<b>Attendance/ Number of Audit Committee Meeting</b>	<b>Attendance/ Number of Remuneration Committee Meeting</b>
Chan Sik Ming, Harry <i>(Chairman &amp; CEO)</i>	5/5	N/A	1/1
Motofumi Tsumura	0/5	N/A	N/A
Hiroto Sasaki	1/5	N/A	N/A
Hiroyuki Kikuchi	1/5	N/A	N/A
Au-Yeung Wai Hung	5/5	N/A	1/1
Kohu Kashiwagi	0/5	0/2	0/1
Chan Yuk Tong	5/5	2/2	1/1
Li Chi Kwong	5/5	2/2	1/1

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## Internal Controls

The board of directors hold full responsibility for the system of internal control of the Group and continuously reviews its effectiveness. The internal audit division performs investigation of the effectiveness of material processes and controls on a risk-based approach in accordance with the provisions on internal controls as set forth in the CG Code. The findings are reported to the Audit Committee. The Board of Directors, through the Audit Committee, has reviewed the effectiveness of the system of internal control for the year ended 31 March 2007.

## Nomination of Directors

Currently, the Company does not have a Nomination Committee. The Board identifies individuals who are suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account such attributes as working experience, professional qualification and other relevant factors including the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rules 3.13 of the Listing Rules.

## Directors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

A statement by the auditors about their reporting responsibilities is set out on pages 25 to 26 of this annual report.