

# Corporate Governance Report

The Board presents this Corporate Governance Report in the Company's annual report for the year ended 31st March, 2011.

## CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Company recognizes the importance of maintaining good corporate governance practices. The Board sets policies and implements corporate governance practices appropriate to the conduct of the Group's business.

In the opinion of the Board, the Company has complied with the code provisions (the "Code Provisions"), set out in the CG Code, during the year ended 31st March, 2011, except for deviations from Code Provisions A.4.1, A.4.2, A.5.4 and E.1.2. Key corporate governance principles and practices of the Company as well as details of the foregoing deviations of Code Provisions are summarized below.

## A. THE BOARD

### A.1 Responsibilities and Delegation

The Board is responsible for the management and control of the business and affairs of the Group, and oversees the Group's business strategic direction and performance, with the objectives of promoting the success of the Group and enhancing shareholder value. Directors carry out their duties in good faith and in the interests of the Company and its shareholders. They have access to relevant information as well as the advice and services of the Company Secretary and senior management. They are also able to seek independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The Board reserves for its decision on all major policy, strategy, financial and risk management and control matters. The day-to-day management, administration and operations of the Group are delegated to the senior management led by the Chief Executive Officer. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management team.

### A.2 Board Composition

The Board currently comprises nine directors, four of whom are executive directors, two are non-executive directors and three are independent non-executive directors. The composition of the Board is set out in the "Board Meetings" section below and the "Corporate Information" section of this annual report. The respective profiles of the current directors and the relationship among them are disclosed in the section "Profile of Directors and Senior Management" on pages 10 to 12.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive directors are expressly identified in all corporate communications of the Company.

Throughout the year ended 31st March, 2011, the Company has met the requirements of Listing Rule 3.10 of having at least three independent non-executive directors with one of them possessing appropriate professional qualifications and accounting and related financial management expertise. In addition, the Company has received from each of the three independent non-executive directors an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of them independent.

The Board has a balanced composition of executive directors, non-executive directors and independent non-executive directors such that there is a sufficient independent element in the Board to exercise independent judgement on key issues of strategy, policy, performance, accountability and standards of conduct.

### A.3 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer of the Company are currently held by Mr. Deacon Te Ken CHIU and Tan Sri Dato' David CHIU respectively, with segregated roles and duties.

The Chairman provides leadership, oversees the functioning of the Board and steers the Board towards corporate goals. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board, managing the Group's business in all aspects and coordinating overall business operations.

### A.4 Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Articles.

Code Provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Although the Company's directors (including non-executive directors) do not have a specific term of appointment, they are subject to retirement by rotation and shareholders' re-election at annual general meetings in accordance with the Articles. The Board considers that such provision in the Articles meets the objective of the said Code Provision A.4.1.

Under the second part of the Code Provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Chairman of the Board, however, is not subject to retirement by rotation in accordance with clause 115(B) of the Articles. In order to uphold good corporate governance practices, Mr. Deacon Te Ken CHIU, the Chairman of the Board, voluntarily retired from his office and offered himself for re-election at the 2009 annual general meeting of the Company notwithstanding that he was not required to do so pursuant to the said clause 115(B) of the Articles. As such, the Company has taken appropriate measure to meet the requirements of such Code Provision A.4.2.

The Company has not set up a nomination committee and the Board as a whole is responsible for reviewing Board composition, developing and formulating relevant procedures for nomination and appointment of directors, monitoring the succession planning of directors and assessing the independence of independent non-executive directors. During the year ended 31st March, 2011, the Board, through its meeting held on 14 June 2010 (with the presence of Mr. Deacon Te Ken CHIU, Tan Sri Dato' David CHIU, Mr. Kwok Wai CHAN, Mr. Peter Man Kong WONG and Mr. Jian Yin JIANG) had reviewed the structure and composition of the Board, recommended the re-election of the retiring directors at the 2010 annual general meeting of the Company and assessed the independence of the Company's independent non-executive directors.

Where vacancies on the Board exist, the Board shall carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity, the Company's need and other relevant statutory requirements and regulations.

Pursuant to the provisions in the Articles, Mr. Craig Grenfell WILLIAMS and Madam Ching Lan JU CHIU shall retire by rotation at the Company's 2011 AGM and are eligible to offer themselves for re-election in the meeting. Madam Ching Lan JU CHIU has indicated to the Company that she will not offer herself for re-election and will therefore retire at the 2011 AGM whereas Mr. Craig Grenfell WILLIAMS will offer himself for re-election at the 2011 AGM.

The Board recommended the re-appointment of Mr. WILLIAMS standing for re-election at the 2011 AGM. The Company's circular, sent together with this annual report, contains detailed information of Mr. WILLIAMS as required by the Listing Rules.

## A.5 Board Meetings

### A.5.1 Board Practices and Conduct of Meetings

Schedules for regular Board meetings are normally agreed with the directors in advance in order to facilitate them to attend. In addition to the above, notice of at least 14 days is given of a regular Board meeting. For other Board meetings, reasonable notice is generally given.

Draft agenda of each Board meeting is usually sent to all directors together with the notice in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting. Board papers together with appropriate and reliable information are usually sent to the directors at least 3 days before each Board meeting to keep the directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer and Company Secretary and other relevant senior management normally attend regular Board meetings and, where necessary, other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Group.

The Company Secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to directors for comments within a reasonable time after each meeting and the final version is open for directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

### A.5.2 Directors' Attendance Records in Board Meetings

The Board has met regularly with a total of 4 Board meetings held during the year ended 31st March, 2011 at approximately quarterly intervals for reviewing and discussing on the financial and operating performance and business plan of the Group and other related matters. The attendance records of each director at the Board meetings are set out below:

<b>Name of Director</b>	<b>Attendance/ Number of Board Meetings Held</b>
<b>Executive Directors</b>	
Mr. Deacon Te Ken CHIU, Chairman	3/4
Tan Sri Dato' David CHIU, Deputy Chairman and Chief Executive Officer	4/4
Mr. Dennis CHIU	2/4
Mr. Craig Grenfell WILLIAMS	3/4
<b>Non-executive Directors</b>	
Madam Ching Lan JU CHIU	0/4
Mr. Daniel Tat Jung CHIU	0/4
<b>Independent Non-executive Directors</b>	
Mr. Jian Yin JIANG	1/4
Mr. Kwok Wai CHAN	2/4
Mr. Peter Man Kong WONG	2/4

### **A.6 Model Code for Securities Transactions**

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions in the Company. Save as disclosed underneath, all the directors have confirmed, following specific enquiry made by the Company, that they have complied with the required standard set out in the Model Code during the year ended 31st March, 2011.

One of the Company's directors acquired 300,000 shares of the Company in the market at the end of the afternoon session (at 3:59 p.m.) on 15th June, 2010 (the "Acquisition"), being the publication date of the Company's annual results announcement for the year ended 31st March, 2010 (which was in breach of Rule A3(a) of the Model Code), as he mistakenly took the "black-out period" (the "BOP") for trading set out in Rule A3(a) of the Model Code to end immediately upon publication of the said annual results at 6:07 a.m. on 15th June, 2010. In light of the fact that the said annual results had already been released for most of the trading day prior to the Acquisition, it was considered that the Acquisition was not in violation of the principles advocated pursuant to the BOP rules. Going forward, the director in question has undertaken to comply strictly with the above BOP rules as well as the requirements in Rule B8 of the Model Code (i.e. to first notify the Chairman or a director designated by the Board in writing and receive a dated acknowledgement before any dealing in the Company's securities).

The Company has also applied the principles of the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company and/or its securities. No incident of non-compliance of the principles of the Model Code by the Group's employees has been noted by the Company.

The Company has introduced new measures to strengthen implementation of the Model Code, in view of the aforesaid incident of unintentional breach of the BOP rules.

The Company has been notifying directors and relevant employees, if any, of the prohibitions on dealings in the securities of the Company according to the Model Code, whenever BOPs arise. In addition, the Company now requires directors and relevant employees to copy their notifications of intended dealings to the Company Secretary as well as one designated director for receiving such notifications.

To strengthen internal control, the Company will also engage an independent professional adviser to conduct a review of the Group's internal control system, identify weaknesses and make recommendations.

## **B. BOARD COMMITTEES**

The Board has established an Audit Committee and a Remuneration Committee for overseeing particular aspects of the Company's affairs. Each Committee has its own defined scope of duties and terms of reference, which are of no less exacting terms than those set out in the CG Code. These terms of reference are posted on the Company's website and are available to shareholders of the Company upon written request. The Board Committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of the Board Committees follow in line with, so far as applicable, those of the Board meetings set out in section A.5.1 above.

Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expenses.

### **B.1 Audit Committee**

The Audit Committee currently comprises 3 members, being the 3 independent non-executive directors, namely Mr. Kwok Wai CHAN, Mr. Peter Man Kong WONG and Mr. Jian Yin JIANG. The chairman of the Audit Committee is Mr. Kwok Wai CHAN who possesses the appropriate professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The principal duties of the Audit Committee include monitoring the Group's financial reporting system, reviewing financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditor in matters within the terms of reference of the Audit Committee.

During the year ended 31st March, 2011, the Audit Committee had met twice and performed the following major works:

- Review and discussion of the annual financial statements and annual results for the year ended 31st March, 2010, the related accounting principles and practices adopted by the Company and the relevant audit findings;
- Review and discussion of the interim financial statements and interim results for the six months ended 30th September, 2010 and the related accounting principles and practices adopted by the Company;
- Review and discussion of financial reporting and internal control system of the Group; and
- Discussion and recommendation of the re-appointment of external auditor.

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There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

The attendance records of the foregoing two Audit Committee meetings are set out below:

<b>Name of Audit Committee Member</b>	<b>Attendance/ Number of Audit Committee Meetings Held</b>
Mr. Kwok Wai CHAN, Chairman	2/2
Mr. Peter Man Kong WONG	2/2
Mr. Jian Yin JIANG	0/2

### B.2 Remuneration Committee

The Remuneration Committee currently comprises 3 members, being 1 executive director, namely Tan Sri Dato' David CHIU, and 2 independent non-executive directors, namely Mr. Kwok Wai CHAN and Mr. Peter Man Kong WONG. The chairman of the Remuneration Committee is Mr. Kwok Wai CHAN. Accordingly, the requirement of having a majority of the members being independent non-executive directors as set out in the CG Code has been met by the Company.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Group's policy and structure for the overall remuneration of the directors and the senior management. In accordance with the CG Code, no director or any of his/her associates should be involved in determining his/her own remuneration.

During the year ended 31st March, 2011, the Remuneration Committee had met once to discuss about the overall remuneration of the senior management and the proposed adjustments of the terms of options granted to senior management. The attendance records of the foregoing Remuneration Committee meeting are set out below:

<b>Name of Remuneration Committee Member</b>	<b>Attendance/ Number of Remuneration Committee Meeting Held</b>
Mr. Kwok Wai CHAN, Chairman	1/1
Tan Sri Dato' David CHIU	1/1
Mr. Peter Man Kong WONG	0/1

## **C. DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT**

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

The Company's directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31st March, 2011.

Deloitte Touche Tohmatsu, the auditor of the Company, has acknowledged its reporting responsibilities in the auditor's report on the Company's financial statements for the year ended 31st March, 2011.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## **D. AUDITOR'S REMUNERATION**

The remuneration paid to the external auditor in respect of audit services provided to the Company for the year ended 31st March, 2011 amounted to HK\$9,435,000. Further fees for non-audit services to the external auditor amounting to HK\$6,800,000 of which HK\$4,900,000 is related to the initial public offerings of KHI.

## **E. INTERNAL CONTROLS**

The Board is responsible for maintaining an adequate internal control system to safeguard the interests of shareholders and the Group's assets and for reviewing the effectiveness of such system on an annual basis. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During the year ended 31st March, 2011, the Board has conducted a review of the effectiveness of the internal control system of the Company.

## **F. COMMUNICATION WITH SHAREHOLDERS**

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables shareholders and investors to make the best investment decision.

Extensive information on the Group's activities, business strategies and developments is provided in the Company's annual reports, interim reports and other corporate communications. In addition, the Company maintains a website at [www.fecil.com.hk](http://www.fecil.com.hk), as a communication platform with shareholders and investors, where information and updates on the Company's business developments and operations and other information are available for public access. Investors may write directly to the Company's principal place of business in Hong Kong for any inquiries.

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Shareholders of the Company are encouraged to attend general meeting of the Company, which provide a valuable forum for dialogue and interaction with the management. Board and Board Committee members and appropriate senior staff of the Group are available at the meeting to answer any questions raised by shareholders.

Code Provision E.1.2 of the CG Code stipulates that the chairman of the board of a listed issuer should attend the issuer's annual general meeting. Although Mr. Deacon Te Ken CHIU was not able to attend the Company's 2010 annual general meeting held on 4th August, 2010, he had arranged for Tan Sri Dato' David CHIU, the Deputy Chairman and Chief Executive Officer of the Company who is well versed in all the business activities and operations of the Group, to attend and chair the meeting and to communicate with the Shareholders.

### G. SHAREHOLDER RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the rights of shareholders for proposing resolutions are contained in the Articles.

All resolutions put forward at shareholders' meetings will be voted by way of poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.fecil.com.hk](http://www.fecil.com.hk)) after each shareholders' meeting.