

Corporate Governance Report

The Company is committed to meeting statutory and regulatory standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness. The Board and the Senior Management of the Company ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Group.

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31st March 2006, except for the deviations from the code provisions A.4.1 and A.4.2 of the Code described below.

Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The Non-executive Directors of the Company are not appointed for a specific term of office. However, the Non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company’s Articles of Association.

Under the second part of code provision A.4.2 of the 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 Company, however, is not subject to retirement by rotation. In accordance with the second part of Article 115(B) of the Articles of Association of the Company, a director appointed as an executive Chairman or as Managing Director or Joint Managing Director shall not while holding such office be subject to retirement by rotation or taken into account in determining the rotation retirement of Directors. In view of good Corporate Governance Practices, the executive Chairman voluntarily retires from his office and offers himself for re-election at the forthcoming annual general meeting of the Company notwithstanding that he is not required to do so by the Company’s Article 115(B). As such, the Company considers that sufficient measures have been taken to ensure that the Company’s Corporate Governance Practices are no less exacting than those in the Code.

THE BOARD OF DIRECTORS

Board Responsibilities

The Board is responsible for the management of the business and affairs of the Group with the objective of enhancing shareholder value and presenting a balanced, clear and understandable assessment of the Company’s performance, position and prospects in the annual and interim reports, and of other price-sensitive announcements and other financial disclosures as required under the Listing Rules, and reports to regulators any information required to be disclosed pursuant to statutory requirements.

Management is responsible for the day-to-day operations of the Group under the leadership of the Deputy Chairman and Chief Executive Officer. The Deputy Chairman and Chief Executive Officer, with other Executive Directors and the management team of each business division, is responsible for managing the business of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for operations of the Group.

Board Composition

The Board comprises ten Directors, whose biographical details are set out in the section “ Profile of Directors and Senior Management” on pages 8 to 13 of this Annual Report. Four of the Directors are executive, three are non-executive and three are independent non-executive. Please refer to the Report of Directors on page 27 for the composition of the Board.

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Collectively the Board has a diverse wealth of expertise and experience in the areas of business management, accounting, finance and corporate governance. One of the Independent Non-executive Directors possesses recognized professional qualification in accounting and corporate governance practices. This diversity of experiences and backgrounds enables the Board to enhance good corporate governance and to bring in valuable contributions and advices for the development of the Group's business.

The roles of Chairman and Deputy Chairman and Chief Executive Officer are held separately by Mr. Deacon Te Ken Chiu and Tan Sri Dato' David Chiu respectively. Their roles and responsibilities are separate and are set out in writing.

The Chairman is responsible for providing leadership to, and overseeing the functioning of the Board. He is also responsible for taking the lead of effective running of the Board.

The Deputy Chairman and Chief Executive Officer is delegated with the authorities to manage the Group's business in all aspects effectively, formulating and setting major strategies, make day-to-day decisions and coordinate overall business operations.

Pursuant to the requirement of the Listing Rules, the Company has received written confirmation from all three Independent Non-executive Directors of their independence from the Company and considers them to be independent.

REGULAR BOARD MEETINGS

The Board meets at least four times during the year and has a formal schedule of matters referred to it for consideration and decision. Additional meetings may be convened as and when necessary. Notice of at least fourteen days is served for regular Board meetings and reasonable notice is given for all other Board meetings. Directors are consulted and provided with an opportunity to include matters into the agenda for discussion at the Board meetings. The Company Secretary assists the Chairman in preparing the agenda for each regular Board meeting and ensure that applicable rules and regulations regarding the meetings are observed.

The Board met on four occasions during the year ended 31st March, 2006. The attendance of individual Directors at the Board meetings is set out in the table below.

	Number of meetings attended	Attendance rate
Executive Directors		
Deacon Te Ken Chiu, <i>Chairman</i>	4/4	100%
David Chiu, <i>Deputy Chairman and Chief Executive Officer</i>	4/4	100%
Dennis Chiu	2/4	50%
Craig Grenfell Williams	2/4	50%
Non-executive Directors		
Ching Lan Ju Chiu	2/4	50%
Dick Tat Sang Chiu	2/4	50%
Daniel Tat Jung Chiu	2/4	50%
Independent Non-executive Directors		
David Kwok Kwei Lo	2/4	50%
Jian Yin Jiang	2/4	50%
Kwok Wai Chan ⁽¹⁾	1/4	25%
Kee Leong Chee ⁽²⁾	1/4	25%

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Notes:

1. Mr. Kwok Wai Chan was appointed as an Independent Non-executive Director of the Company on 18th November, 2005.
2. Mr. Kee Leong Chee retired from the office of Independent Non-executive Director of the Company at the Annual General Meeting held 19th August, 2005.

BOARD COMMITTEES

The Board has established an Audit Committee and a Remuneration Committee with written terms of reference which are of no less exacting terms than those set out in the Code of Corporate Governance Practices. Each committee has its own defined scope of duties and terms of reference. The Company Secretary shall make available the terms of reference of the committees to any shareholder upon receipt of a request in writing from the shareholder. The members of a committee are empowered to make decisions on matters within the terms of reference of such committee.

Audit Committee

The Audit Committee currently comprises three members, all of whom are Independent Non-executive Directors, namely Mr. Kwok Wai Chan, Mr. David Kwok Kwei Lo and Mr. Jian Yin Jiang.

The principal duties of the Audit Committee include monitoring the Group's financial reporting system, review of financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. Two meetings were held during the year ended 31st March, 2006, and the attendance record is set out as follows:

	Number of meetings attended	Attendance rate
Executive Director		
David Chiu	2/2	100%
Independent Non-executive Directors		
Kwok Wai Chan, Chairman ⁽¹⁾	1/2	50%
David Kwok Kwei Lo	2/2	100%
Jian Yin Jiang	1/2	50%
Kee Leong Chee ⁽²⁾	1/2	50%

Notes:

1. Mr. Kwok Wai Chan was appointed as an Independent Non-executive Director of the Company on 18th November, 2005.
2. Mr. Kee Leong Chee retired from the office of Independent Non-executive Director of the Company at the Annual General Meeting held 19th August, 2005.

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During the year, the works performed by the Audit Committee were mainly set out below:

- reviewed the interim results for the period ended 30th September 2005 and annual results for the year ended 31st March, 2006 of the Group
- discussed with the management of the Company over the fairness and adequate accounting standards and policies of the Group in the preparation of the interim and annual financial statements
- reviewed and discussed with external auditors over the financial reporting of the Company
- reviewed the internal control procedures

Remuneration Committee

A Remuneration Committee has been established by the Company in accordance with the requirements of the Code on Corporate Governance Practices (the “Code”). The Remuneration Committee currently comprises one Executive Director, namely Tan Sri Dato’ David Chiu, who is the Chairman of the Remuneration Committee, and two Independent Non-executive Directors, namely Mr. David Kwok Kwei Lo and Mr. Kwok Wai Chan.

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 senior management. In accordance with the Code, no Director or any of his/her associates may be involved in determining his/her own remuneration.

The first meeting of the Remuneration Committee was held after the financial year end and the attendance record is set out as follows:

	Number of meetings attended	Attendance rate
Executive Director		
David Chiu, Chairman	1/1	100%
Independent Non-executive Directors		
David Kwok Kwei Lo	1/1	100%
Kwok Wai Chan	1/1	100%

DIRECTORS’ AND AUDITORS’ ACKNOWLEDGEMENT

All directors acknowledge their responsibility for preparing the accounts for the year ended 31st March, 2006.

Deloitte Touche Tohmatsu, the auditors of the Company, acknowledge their reporting responsibilities in the auditors’ report on the financial statements for the year ended 31st March, 2006.

AUDITORS’ REMUNERATION

The remuneration paid to the external auditors in respect of audit services for the year ended 31st March 2006 amounted to HK\$2,850,000.

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DIRECTORS' SECURITIES TRANSACTIONS

The company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors (the "Model Code"). All Directors have confirmed, following a specific enquiry by the Company, that they have fully complied with the required standards as set out in the Model Code during the year.

INTERNAL CONTROLS

The Board has overall responsibility for the Group's internal control systems and through the Audit Committee, conducts reviews on the effectiveness of these systems at least bi-annually, covering all material controls, financial, operational and compliance controls and risk management functions. The process used in reviewing the effectiveness of these internal control systems includes discussion with management on risk areas identified by the management. The purpose of the Company's internal control is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems so that the Company's objectives can be achieved.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain a high level of transparency in communicating with shareholders. Extensive information on the Group's activities, business strategies and developments is provided in the Company's annual reports, interim reports and corporate website (www.fecil.com.hk). Shareholders of the Company are encouraged to attend the annual general meeting of the Company which offer a valuable forum for dialogue and interaction with management.