Corporate governance

1. Our approach to corporate governance

1a) Framework and approach to corporate governance and responsibility
The Board of ECSI Limited ('ECSI') is committed to maintaining the highest standards of corporate governance.

Corporate governance is about having a set of values that underpin the company's everyday activities – values that ensure fair dealing, transparency of actions, and protect the interests of stakeholders. The Board considers corporate governance forms part of a broader framework of corporate responsibility and regulatory oversight.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve its governance practices; and
- monitor global developments in best practice corporate governance.

The Board's approach has been to be guided by the principles and practices that are in our stakeholders' best interests while ensuring full compliance with legal requirements.

The Corporate Governance statement has been updated to reflect the revised Principles and Recommendations required to be used in Annual Reports for the 1 July 2008 to 30 June 2009 Financial Year.

1b) Compliance with the ASX Corporate Governance Principles and Recommendations
The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have followed the ASX Corporate Governance Principles and Recommendations in the reporting period.

Listed companies must identify the recommendations that have not been followed and provide reasons for the company's decision.

This Governance Statement describes ECSI's governance practices and notes where they do not comply with the ASX Corporate Governance Principles and Recommendations.

2. Date of this statement

This statement reflects our corporate governance policies and procedures as at 30 June 2009.

3. The Board of Directors

3a) Membership and expertise of the Board
The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, with details of individual Director's backgrounds, is set out below.

ASX Corporate Governance Principles and Recommendations: 2.5, 2.6

	Director & Chairman	**Director**	**Director**
Name:	James Edward Green	Graeme Allan Green	Dr ('Ben') Huang Xu
Qualifications	B Pharm	Dip Eng	Ph. D., B. Bus
Term of Office:	Chairman & Director since 16 October 2001.	Director since 17 October 2001.	Director since 1 July 2002
Independent:	No – substantial shareholder	No – Executive Director - CEO	Yes
External Directorships:	Nil	Nil	Nil
Skills, experience and expertise:	Jim was a director of companies associated with his brother, Graeme Green, in the development & marketing of smart card systems for 17 years. Previously a Non-Executive Director of Coms21 Limited, a technology focussed entity listed on the ASX. Jim Green is a pharmacist, as well as being experienced in the development and operation of a variety of business concerns including public relations and media, function centres and retail distribution.	Graeme has been involved in numerous smart card businesses since the mid 1980s including being Managing Director of Coms21 Ltd, an entity listed on the Australian Stock Exchange. Graeme has been involved in developing business and government relationships throughout China. These including those with Beijing IMJ Investment Co Limited ("IMJ") and Lu Xiao Bing, since 1992.	Dr Xu provides on the ground experience of the Chinese market and lives in Beijing. Dr Xu runs his own business consultancy practice in Beijing where he assists new and established businesses across China develop alliances and partnerships to take advantages of opportunities arising from the opening up of the Chinese economy.

Corporate Governance (continued)

3. The Board of Directors (continued)

3b) Board role and responsibility

The Board is accountable to shareholders for ECSI's performance.
In summary, the Board's responsibilities include:

- providing strategic direction and approving corporate strategic initiatives;
- planning for Board and executive succession;
- selecting and evaluating future Directors, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"):
- setting CEO and Director remuneration within shareholder approved limits;
- approving budget and monitoring management and financial performance;
- considering and approving Annual Financial Report (including the Directors' Declaration) and the interim and final financial statements);
- approving ECSI's risk management strategy, monitoring its effectiveness and maintaining a direct and ongoing dialogue with ECSI's auditors and regulators; and
- considering and reviewing the social and ethical impact of ECSI's activities, setting standards for social and ethical practices and monitoring compliance with ECSI's social responsibility policies and practices.

The Board would normally delegate to management responsibility for:

- developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- maintaining an effective risk management framework and keeping the Board and market fully informed about material risks;
- developing ECSI's annual budget, recommending it to the Board for approval and managing day-to-day operations within the budget; and
- managing day-to-day operations in accordance with standards for social and ethical practices which have been set by the Board.

However the current circumstances require all these functions to be exercised by the Board Members or the Company Secretary. The company does not currently have a performance evaluation method due to the current size and limited nature of operations.

ASX Corporate Governance Principles and Recommendations: 1.1, 1.2, 1.3, 2.5

3c) Board size and composition

The Board determines its size and composition, subject to the limits imposed by ECSI's Constitution. The Constitution requires a minimum of three and a maximum of 10 Directors. In addition, at least two of the Directors shall ordinarily reside within Australia. Currently the Board consists of three directors, two of which are Australian residents.

3d) The selection and role of the Chairman

The Chairman is selected by the Board from the Non-executive Directors.
The Chairman's role includes:

- providing effective leadership on formulating the Board's strategy;
- representing the views of the Board to the public;
- ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;
- guiding the agenda and conduct of all Board meetings; and
- reviewing the performance of Board Directors.

The company does not currently comply with the requirement that the Chairman be an independent director. However, the current Chairman, James ("Jim") Green is a non-executive Director, appointed 26 October 2001, and the board believes that it is appropriate given his skills and experience and the size and structure of the board.

ECSI complies with the requirement that the roles of Chairman and CEO be separate, with Graeme Allan Green as the company's CEO.

ASX Corporate Governance Principles and Recommendations: 2.2, 2.3

3e) Directors' independence

The Board assesses each of the Directors against specific criteria to decide whether they are in a position to exercise independent judgement. Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each Director's individual circumstances rather than general materiality thresholds. In assessing independence, the Board considers whether the Director has a business or other relationship with ECSI, either directly, or as a partner, shareholder or officer of a company or other entity that has an interest, or a business or other relationship, with ECSI or another ECSI group member. Dr ('Ben') Huang Xu is an independent director in accord with this definition of independence.

Corporate Governance (continued)
3. The Board of Directors (continued)

3e) Directors' independence (continued)
As both James Green (non-executive Chairman) & Graeme Green (CEO) are related (brothers) and substantial shareholders, they are not considered to be independent. Consequently the board does not have a majority of independent directors and does not comply with the requirement to have a majority of independent directors. Notwithstanding this, the board believes that its current composition of directors is appropriate for ECSI, given the skills and experience of the directors.

ASX Corporate Governance Principles and Recommendations: 2.1, 2.5, 2.6

3f) Avoidance of conflicts of interest by a Director
In accordance with the Corporations Act 2001, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter.

3g) Meetings of the Board and their conduct
The Board meets formally at least four times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. This year the full Board has met 4 times. The Chairman and the Company Secretary establish meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year. The Directors and Company Secretary also maintain informal communications via email and phone.

3h) Succession planning
The Board plans succession of its own members taking into account the skills, experience and expertise required and currently represented, and ECSI's future direction. The Board is also responsible for CEO and CFO succession planning.

3i) Review of Board performance
The Board does not formally review its overall performance or the performance of individual Directors. The performance of non-executive Directors (including the Chairman) is not subject to any formal review process due to the current size of the board.

ECSI does not comply with ASX recommendations on this issue.

ASX Corporate Governance Principles and Recommendations: 2.5, 2.6

3j) Nomination and appointment of new Directors
Recommendations for nominations of new Directors are made by the Board as a whole. Those nominated are assessed by the Board against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will augment the existing Board and their availability to commit themselves to the Board's activities. If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with relevant information on the candidates for election. It does not comply with the requirement to have a Nomination Committee. This is due to the current size of the board – 3 members – the Board does not consider there is any advantage to shareholders in creating a Nomination Committee in a Board consisting of 3 Directors.

ASX Corporate Governance Principles and Recommendations: 2.4, 2.5, 2.6

3k) Retirement and re-election of Directors
ECSI's Constitution states that one-third of our Directors must retire each year. The maximum time that each Director can serve in any single term is three years. Any Director who has been appointed during the year must retire at the next annual general meeting. Eligible Directors who retire each year may offer themselves for re-election by shareholders at the next annual general meeting.

3l) Compulsory retirement of Directors
The Board has no limit on the number of terms of office which any Director may serve.

3m) Board access to information and advice
All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports. ECSI Limited Company Secretary provides Directors with ongoing guidance on issues such as corporate governance, ECSI's Constitution and the law. The Board collectively, and each Director individually, has the right to seek independent professional advice at ECSI's expense to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in its absence, Board approval may be sought.

ASX Corporate Governance Principles and Recommendations: 2.5, 2.6

Corporate Governance (continued)
3. The Board of Directors (continued)

3n) Securities Trading Policy
Directors and employees are subject to the Corporations Act restrictions on trading securities in the Company if they are in possession of inside information. This is regarded as any information that is non-public and, if it were public that a reasonable person would expect to have a material effect on the price of the Company's securities.

In addition, the company has established a policy on the trading in ECSI's securities, which applies to all Directors and employees. Key aspects of this policy are as follows:

- Directors and employees are encouraged to be long-term holders of the company's securities and are discouraged from any short-term trading;
- Directors and employees may trade shares for 4 weeks following announcement of the annual results, half-year results and the annual general meeting, provided the market has been fully informed. However a trading embargo of 2 days applies immediately after any significant announcement;
- Directors and employees need to ensure that the market is fully informed before they trade and to protect themselves should discuss the intended share trading with the Chairman or Company Secretary;
- Trading outside of the four-week period is required to be approved by the Chairman, prior to any transaction occurring. Generally, if the market is fully informed, the approval will be granted.
- Directors are required to notify the Company Secretary within 2 days of a change in their beneficial interest in the company's shares.
- Directors interest in the companies securities have not changed materially in the last 24 months.

ASX Corporate Governance Principles and Recommendations: 3.2, 3.3

4. Board committees

4a) Board committees and membership
There are currently no Board Committees. ECSI does not comply with ASX recommendations on Board committees as ECSI's current board size (a total of 3 Directors) and the limited number of independent Directors does not allow for separate Board Committees to be effective or to add value. All issues are considered by all the Directors, unless a Director is unable to exercise independence.

ASX Corporate Governance Principles and Recommendations: 2.4, 4.1, 4.2, 4.3, 4.4, 4.5, 8.1, 8.3

4b) Audit Committee
ECSI does not have an Audit Committee and it does not comply with the respective recommendations regarding Audit Committees for the reasons outlined above.

ASX Corporate Governance Principles and Recommendations: 4.1, 4.2, 4.3, 4.4, 4.5

4c) Board Risk Oversight Committee
ECSI does not have a Board Risk Oversight Committee and it does not comply with this recommendation for the reasons outlined above.

ASX Corporate Governance Principles and Recommendations: 7.1, 7.3

4d) Board Nominations Committee
ECSI does not have a Board Nominations Committee and any appointment would be considered by all directors. It does not comply with this recommendation for the reasons outlined above.

ASX Corporate Governance Principles and Recommendations: 2.4, 2.5

4e) Board Remuneration Committee
ECSI does not have a Board Remuneration Committee and does not comply with ASX recommendations on this issue for the reasons outlined above.

Directors have been paid a fixed remuneration in the past, however currently no director's fees are being paid or are being accrued. Directors would in past years have been paid a directors fee for attending Board Meetings, as well as being able to claim for out-of-pocket expenses and any time spent on special issues.

ECSI remuneration principle is that payments to non-executive Directors (as detailed in the Financial Statements) are fixed

Corporate Governance (continued)

4. Board committees (continued)

4e) Board Remuneration Committee (continued)
remuneration, reimbursement of expenses and time spent on specific issues. The executive Directors are paid for their executive duties at a negotiated rate in line with their qualifications and experience. Full details regarding remuneration are contained in the audited Remuneration Report in the Director's Statement of the Annual Report.

ASX Corporate Governance Principles and Recommendations: 8.1, 8.2, 8.3.

5. Audit governance and independence

5a) Approach to audit governance
The Board is committed to these basic principles:

- ECSI must produce true and fair financial reports; and
- its accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies.

5b) Engagement and rotation of external auditor
ECSI's independent external auditor is Anderson Roscoe.

5c) Discussions with external auditor on independence
The Board requires the external auditor to confirm that they have maintained their independence.

5d) Relationship with external auditor
ECSI's current policies on employment and other relationships with our external auditor are:

- the audit partners and any audit firm employee on the ECSI audit are prohibited from being an officer of ECSI;
- an immediate family member of an audit partner or any audit firm employee on the ECSI audit is prohibited from being a Director or an officer in a significant position at ECSI;
- a former audit firm partner or employee on the ECSI audit is prohibited from becoming a Director or officer in a significant position at ECSI for at least five years and after the five years, can have no continuing financial relationship with the audit firm;
- members of the audit team and firm are prohibited from having a business relationship with ECSI or any officer of ECSI unless the relationship is clearly insignificant to both parties;
- the audit firm, its partners, its employees on the ECSI audit and their immediate family members are prohibited from having a direct or material indirect investment in ECSI;
- officers of ECSI are prohibited from receiving any remuneration from the audit firm;
- the audit firm is prohibited from having a financial interest in any entity with a controlling interest in ECSI; and
- the audit firm engagement team in any given year cannot include a person who had been an officer of ECSI during that year.

5e) Restrictions on non-audit services by the external auditor
The external auditor is not restricted in the provision of non-audit services to ECSI except as required by the Corporations Act or the ASX Listing Rules.

5f) Attendance at Annual General Meeting
ECSI's external auditor attends the annual general meeting and is available to answer shareholder questions.

6. Controlling and managing risk

6a) Approach to risk management
Taking and managing risk are central to business and to building shareholder value. ECSI's approach is to identify, assess and control the risks which affect its business. The intention is to enable risks to be balanced against appropriate rewards. The risk management approach links ECSI's vision and values, objectives and strategies, and procedures and training. Due to the current size of the Company and its limited operations it is not appropriate to maintain a formal risk management structure.

ASX Corporate Governance Principles and Recommendations: 7.1

6b) Risk management roles and responsibilities
The Board is responsible for approving and reviewing ECSI's risk management strategy and policy. The Company Secretary is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of ECSI's activities.

ECSI does not comply with ASX recommendations on these issues as it does not have a formal verifiable system of risk management or any employees to implement such a system as it does not view this to be appropriate at the current time. It relies on the oversight of the Directors and the Company Secretary, together with the periodic verification of the external auditor.

Corporate Governance (continued)
6. Controlling and managing risk (continued)

6c) Company Secretarial assurance
The Board receives periodic reports about the financial condition and operational results of ECSI. The CEO & the CFO periodically provide formal statements to the Board that in all material respects:

- the company's periodic financial statements present a true and fair view of ECSI's financial condition and operational results for those reporting periods, and
- that risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

ASX Corporate Governance Principles and Recommendations: 7.1, 7.2, 7.3, 7.4

7. Remuneration framework

7a) Overview
Director's remuneration is approved and fixed by shareholders. ECSI does not currently pay its Directors and Company Secretary a fixed remuneration. These Officers can claim reimbursement of out-of-pocket expenses incurred on behalf of ECSI and time spent on specific issues. The Company Secretary is paid for all his time on an hourly basis.

7 b) Officers Share Options
There are no Officers Share Options (OSO) granted over un-issued shares to directors or executives as part of their remuneration. The issue of any options would require approval by Shareholders.

Officers Share Options are designed to:

- further align the interests of officers and shareholders; and
- motivate officers to drive growth over the long-term for sustainable shareholder value.

ASX Corporate Governance Principles and Recommendations: 8.1, 8.2, 8.3

8. Corporate responsibility and sustainability

8a) ECSI's approach to corporate responsibility and sustainability
ECSI's aim is to manage its business in a way that produces positive outcomes for all stakeholders and maximises economic, social and environmental value simultaneously. In doing so, ECSI accepts that the responsibilities flowing from this go beyond both strict legal obligations and just the financial bottom line. Transparency, the desire for fair dealing, and positive links into the community underpin our everyday activities and corporate responsibility practices.

ASX Corporate Governance Principles and Recommendations: 3.1

8b) ECSI's Code of Conduct
ECSI's currently does not have in operation a formally adopted Code of Conduct that applies to all Directors, executives and employees without exception. The intension of such a Code is to govern workplace and human resource practices, risk management and legal compliance, and ensure alignment to the Shareholders interests.

The Directors of ECSI's believe their core values of teamwork, integrity and performance ensure ethical outcomes and the alignment of the shareholders and Boards interests.

The ASX recommendations require that the Code of Conduct is reviewed periodically, specifically to reflect the ASX Corporate Governance Principles and Recommendations.

ECSI does not comply with ASX recommendations on this issue as the Board does not believe that a formal Code of Conduct is appropriate for the company at the current time. The Board however, endeavours to act ethically at all times, in line with its obligations under the Corporations Act and the ASX Listing Rules.

ASX Corporate Governance Principles and Recommendations: 3.1, 3.3

8c) Insider trading policy and trading in ECSI shares
Both Directors and employees of a Corporation are subject to restrictions under the law relating to dealing in certain financial products, including securities in a company (including ECSI), if they are in possession of inside information.
Inside information is information that is not generally available and, if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities of the company.

ASX Corporate Governance Principles and Recommendations: 3.2, 3.3

Corporate Governance (continued)
8. Corporate responsibility and sustainability (continued)

8d) Market disclosure policy and practices
The Company Secretary has responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

ECSI is committed to giving all shareholders comprehensive and equal access to information about our activities, and to fulfil continuous disclosure obligations to the broader market. ECSI policy is designed to ensure compliance with ASX Listing Rules continuous disclosure requirements. It ensures any information that a reasonable person would expect to have a material effect on the price of ECSI's securities is disclosed.

ECSI currently does not maintain its own web site and relies on communication in this medium on the ASX Company Announcements platform carrying all the relevant information. In this respect it does not comply with Principle 6, but as all information it would carry on a Company web-site is carried on the ASX site it does not believe its stakeholders are disadvantaged.

ASX Corporate Governance Principles and Recommendations: 5.1, 5.2, 6.1, 6.2

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6 July 2009

Mr Robert Lees
Company Secretary
ECSI Limited
PO Box 608
Mitchell ACT 2911

By Email

Dear Robert,

ECSI Limited (the "Company")

We refer to the Company's annual report for the year ended 30 June 2008 ("Annual Report") and in particular to the Company's disclosures about its corporate governance practices.

Listing rule 4.10.3 requires that an entity include in its annual report:

> *"A statement disclosing the extent to which the entity has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed all of the recommendations the entity must identify those recommendations that have not been followed and give reasons for not following them. If a recommendation had been followed for only part of the period, the entity must state the period during which it had been followed."*

ASX Markets Supervision (ASXMS) has reviewed the corporate governance disclosures in the annual reports of all entities. Upon our review of the Company's Annual Report, ASXMS could not identify a statement in the annual report confirming whether the Company had followed or not followed the following recommendations of the Council:

- Recommendations 2.1, 2.2, 3.1, 3.3, 7.2, 7.3, and 10.1.

ASXMS attaches particular importance to encouraging a consistently high standard of listed entities' disclosures about the Council's corporate governance recommendations.

ASXMS contacted the Company with regard to its disclosure in respect of the corporate governance recommendations following review of the Company's 2007 annual report. Either the Company agreed that it had not made the necessary disclosure in relation to the corporate governance recommendations or upon review by ASXMS it has been determined that adequate disclosure had not been made. ASXMS required the Company to confirm by letter that the Company's board was apprised of the fact that the corporate governance disclosure in the 2007 annual report was deficient for the purposes of complying with listing rule 4.10.3, and that the Company undertook to ensure that its disclosures under listing rule 4.10.3 in its annual report for the year ending 30 June 2008 would address whether the Company has adopted each one of the Council's recommendations, and, where the Company has not adopted one, given the Company's reasons for not having adopted that recommendation.

In light of the Company's non-disclosure in respect of the abovementioned corporate governance recommendations in its Annual Report, ASXMS requires that the Company make additional disclosure to the market in compliance with listing rule 4.10.3 about the extent to which the Company has followed or not followed <u>each one</u> of the recommendations of the Council.

The additional disclosure should be sent to me by e-mail at suzanna.dabski@asx.com.au or by facsimile on facsimile number (02) 9241 7620. It should <u>not</u> be sent to the Company Announcements Office. This is requested as soon as possible and, in any event, not later than 9.30am A.E.S.T. on Tuesday, 14 July 2009.

Under listing rule 18.7A, a copy of this letter and the additional disclosure will be released to the market, so your response should be presented in a suitable form.

Should the Company fail to do so, ASXMS may consider continuing the suspension of the Company's securities from quotation until the Company releases to the market a corporate governance statement that discloses the required information.

We remind you that (with the exception of Recommendation 4.2, the audit committee recommendation, which is mandatory for the top 300 entities under listing rule 12.7) reporting on the Company's corporate governance practices is on an "if not, why not" basis. The Company is not obliged to have adopted any particular recommendation of the Council, only to report on whether it has followed each recommendation, and, where it has not followed a recommendation, to give its reasons for not having adopted that particular recommendation.

If you have any queries about this letter, or about the Council's recommendations and the Company's reporting obligations in relation to those recommendations, please contact me immediately.

Yours sincerely,

Suzanna Dabski

<u>Adviser, Issuers (Sydney)</u>