



## **CORPORATE GOVERNANCE STATEMENT**

This Statement outlines the main corporate governance practices in place and the extent to which the Combined Group has followed the recommendations of the ASX Corporate Governance Council throughout the 2010 financial year, including the Council's revised Corporate Governance Principles and Recommendations (2<sup>nd</sup> edition) published in August 2007 ('Guidelines').

This Statement is available on the Combined Group's website at [www.fkp.com.au](http://www.fkp.com.au) under the Corporate Governance section.

### **PRINCIPLE 1: BOARD AND MANAGEMENT**

The Board's primary role is the creation of long-term security holder value through the development of the strategic direction of the Combined Group, the implementation of efficient internal delegations and controls, the effective oversight of senior management, the promotion of high ethical standards of behaviour, the offering of high quality products to the market and commitment to the constant improvement of the Combined Group's corporate governance practices.

The Board's responsibilities include:

- strategic planning;
- capital management and financial reporting;
- approving and monitoring major capital expenditure, acquisitions and disposals;
- appointing, or ratifying the appointment of, senior management;
- approving and monitoring the risk management framework; and
- overseeing the Combined Group's accountability systems and code of conduct.

Further details of the specific philosophy, values and responsibilities of the Board are contained in the *Board Charter* available on the Combined Group's website under the Corporate Governance section.

The Board has delegated to the Managing Director and Chief Executive Officer responsibility for the day to day management of the Combined Group and the implementation and delivery of the Board's strategic direction. The Board delegates authority to the Managing Director and Chief Executive Officer and senior management in accordance with a formal delegation document.

The Managing Director and Chief Executive Officer is responsible for the induction of senior management. Each year the Managing Director and Chief Executive Officer and the Remuneration Committee undertake a formal process of reviewing the performance of senior management by reference to key performance indicators identified annually for each executive. The measures generally relate to the performance of the Combined Group, the performance of the executive's division and the performance of the executive individually. Performance evaluations for senior management have taken place during the financial year in accordance with the approved processes of the Combined Group. Further details relating to the assessment criteria for the Managing Director and Chief Executive Officer and senior management remuneration are disclosed in the Remuneration Report set out on pages 18 to 24 of the 2010 Annual Report.

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## **PRINCIPLE 2: BOARD STRUCTURE**

During the financial year the Board comprised one Executive Director (the Managing Director and Chief Executive Officer) and six Non-Executive Directors. The names, skills and experience of the Directors who held office during the financial year and the period of office of each Director are set out on page 10 of the 2010 Annual Report.

### **Independence of Directors**

The Board assesses the independence of Directors each year having regard to each Director's specific circumstances and the disclosures made by the Director. The Board makes more frequent assessments if a Director discloses a new interest or relationship relevant to their independence.

The Board considers that the majority of Directors who held office during the year are independent. In accordance with the independence test set out in the Guidelines, the Board has assessed the following Non-Executive Directors to be independent:

- D C Crombie;
- L R McKinnon;
- P Parker; and
- J E F Frayne.

Mr Parker was a founding director of the Parent Entity and was previously a substantial security holder in the Combined Group. However, Mr Parker has not served in an executive capacity for many years and has no material contractual relationship with the Combined Group. The Board does not consider that Mr Parker's previous relationship and length of service on the Board affects his ability to act independently and in the best interests of the Combined Group.

Mr Frayne ceased to be a partner of PKF Chartered Accountants, a material consultant to the Combined Group, in June 2006. The Board does not consider Mr Frayne's previous relationship affects his ability to act independently and in the best interests of the Combined Group.

Mr Lee and Mr Dyer do not meet the independence test set out in the Guidelines as they are associated directly with Mulpha Australia Limited, a substantial security holder of the Combined Group.

To facilitate independent judgement in decision making, each Director has the right to seek independent professional advice in relation to the execution of Board responsibilities. Such advice may be obtained at the Combined Group's expense with prior approval of the Chairman, which will not be unreasonably withheld. Directors may share advice obtained with the other Directors where appropriate.

The Board believes that all of the Non-Executive Directors of the Combined Group bring independent judgement to bear in the decision making process.

### **Role of Chairman**

Mr Lee was appointed Chairman of the Combined Group on 12 February 2009. Mr Lee is not an independent director for the purposes of the Guidelines as Mr Lee is directly associated with Mulpha Australia Limited, a substantial security holder of the Combined Group.

The Board has not appointed a lead independent director as the Board does not believe that any such appointment could increase the exercise of independent judgement by the Board. The Board considers that the Chairman facilitates the effective contribution of all directors and promotes constructive and respectful relations between directors and between the Board and senior management.

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Wherever a Director has an actual or potential conflict of interest or material personal interest, the Board's policies and protocols ensure:

- that the interest is fully disclosed to the Board and the disclosure is recorded in the Board minutes;
- unless the Directors resolve to the contrary in accordance with the *Corporations Act 2001*, the relevant Director is excluded from all considerations of the matter by the Board; and
- unless the Directors decide to the contrary, the relevant Director does not receive any segment of the Board papers or other documents containing any reference to the matter.

A copy of the Board's *Conflict of Interest Policy* is available on the Combined Group's website under the Corporate Governance section.

The roles of Chairman, and Managing Director and Chief Executive Officer are exercised by separate individuals. The Board recognises the importance of ensuring that the Chairman and the Managing Director and Chief Executive Officer have defined roles within the organisation and function within clear functional lines. Further information in relation to the *Role of the Chairman* has been published on the Combined Group's website, under the Corporate Governance section.

### **Nomination Committee**

The full Board undertook the responsibilities of a Nomination Committee during the financial year. This included assessing the necessary and desirable competencies of the Board, reviewing the Board succession plans and ensuring that there is an appropriate mix of expertise, skill and experience on the Board.

When a Board vacancy occurs or where it is considered that there is a gap in necessary expertise, the Board reviews potential candidates, with advice from external consultants if necessary. The Board invites the most suitable candidate to join the Board in a casual vacancy until their proposed election by the Combined Group's security holders at its next AGM.

In addition, in accordance with the Constitution of the Parent Entity, one-third of Directors, excluding the Managing Director, retire from office at each AGM but may stand for re-election. The Board confirms to security holders whether it supports the re-election of each retiring director in a statement that accompanies the Notice of Meeting.

The Remuneration Committee of the Board of Directors is responsible for reviewing and recommending to the Board for approval, procedures to assess the performance of directors. The Board undertakes an informal review of its performance annually, which includes an assessment of future requirements in relation to Board composition and overall Board performance, and when the appointment of a new Director is required.

All new Directors are provided with detailed information in relation to the Combined Group, its financial, strategic, operational and risk management position and its policies and procedures upon their appointment.

## **PRINCIPLE 3: ETHICAL STANDARDS**

### **Code of Conduct**

The Combined Group has well established policies, procedures and codes of conduct which seek to promote ethical standards of behaviour by all employees and a culture of compliance that is risk-aware and embraces good governance practices underpinned by knowledge of the law and relevant corporate and community expectations.

The Board supports the need for Directors, senior management and all other employees to observe the highest standards of behaviour and business ethics. All Directors and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Combined Group.

The Board's policies reflect its requirements in relation to the promotion of ethical and responsible decision making. Appropriate training programs on the Combined Group's internal policies support the policies.

A formal *Code of Conduct* which requires employees to act honestly and in good faith, not disclose confidential information, avoid conflicts of interest, observe all relevant laws and maintain a culture of lawful and ethical behaviour is published on the Combined Group's website under the Corporate Governance section. The *Code of Conduct* is supported by various internal policies, including those dealing with avoiding conflicts of interest and ensuring privacy is respected.

In addition, the *Board Charter* sets out the Board's philosophy for driving the creation of long-term security holder value by high ethical standards of behaviour, respect for employees' aspirations and acting as a good corporate citizen in the community in which the Combined Group operates. The *Board Charter* also articulates the Board's values which include a commitment to a climate of trust and candour, fostering a culture of open constructive dissent and ensuring individual accountability.

### **Trading in Securities by Directors and Employees**

The Board has established written guidelines, detailed in its *Insider Trading and Dealing in the Group's Securities Policy*, that restrict dealings by Directors and employees in the Combined Group's securities and in securities of customers and other entities with which Directors or employees may deal in the course of their duties.

The *Insider Trading and Dealing in the Group's Securities Policy* complies with the Guidelines. It identifies certain periods when, in the absence of knowledge of unpublished price-sensitive information, Directors and relevant employees may buy or sell securities. These periods are the 30 days immediately following two trading days after the announcement of half year and full year results, following the AGM and following the issue of a prospectus.

A copy of the *Insider Trading and Dealing in the Group's Securities Policy* is available on the Combined Group's website under the Corporate Governance section.

### **PRINCIPLE 4: FINANCIAL REPORTING**

The Combined Group has an established Audit Committee ('Committee') which operates under written terms of reference approved by the Board and embodied in the *Audit Committee Charter*. The Committee assists the Board to verify and safeguard the integrity of the Combined Group's financial reporting, internal control structures and risk management systems and oversees the independence of the external auditor.

The Committee is also responsible for making recommendations to the Board in relation to the selection, appointment and rotation of the external audit engagement partners and overseeing and appraising the quality and effectiveness of audit work performed by the external auditor.

The Committee comprises three Non-Executive Directors with a majority of Directors being independent. The Committee is chaired by an independent chairman who is not the Chairman of the Board. The structure of the Committee complies with the recommendations in the Guidelines and therefore Listing Rule 12.7. The functions and responsibilities of the Committee under its Charter comply with the recommendations in the Guidelines.

The current members of the Committee are Mr Crombie (Chairman), Mr McKinnon and Mr Lee and the qualifications of each member are set out in the Annual Report. Meetings of the Committee are attended, by invitation, by the Chief Financial Officer, the Company Secretary, the engagement partner from the Combined Group's external auditor and such other senior staff or professional advisers as may be appropriate from time to time. The number of meetings of the Committee held during the year is set out in the Annual Report. Minutes of all Committee meetings are provided to the Board and the Chairman of the Committee also reports to the Board after each Committee meeting.

When considering the Committee's review of financial reports, the Board also receives a written statement in accordance with s295A of the *Corporations Act 2001* signed by the Managing Director and Chief Executive Officer and Chief Financial Officer affirming that the Combined Group's financial report gives a true and fair view, in all material respects of the Combined Group's financial position and complies in all material respects with relevant accounting standards.

The *Audit Committee Charter* is available on the Combined Group's website under the Corporate Governance section.

The Combined Group's external auditor has declared its independence to the Committee during the year. The Committee has examined detailed material provided by the external auditor and by management and has satisfied itself that the standards for auditor independence and associated issues have been complied with.

#### **PRINCIPLE 5: MATERIAL DISCLOSURE**

The Combined Group has established a *Continuous Disclosure Policy* and also *External Communications and Continuous Disclosure Protocols* which are intended to enhance the Combined Group's compliance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules. These documents set out procedures to identify relevant material information, report material information to the Company Secretary for review and ensure compliance with the continuous disclosure requirements. A copy of the *Continuous Disclosure Policy* is available on the Combined Group's website under the Corporate Governance section.

The Company Secretary has primary responsibility for communications with the ASX including responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing information sent to the ASX and security holders.

The Directors have obligations under a Disclosure of Interests and Transactions in Securities Agreement entered into by each of them with the Combined Group to inform the Combined Group of any trading by them in the Combined Group's securities and of any other interests in contracts the Director may have with a Combined Group entity.

All significant announcements made by the Combined Group to the ASX are published on the Combined Group's website.

#### **PRINCIPLE 6: SECURITY HOLDER COMMUNICATION**

The Combined Group aims to keep security holders informed of the Combined Group's performance and all major developments in an ongoing manner and has established a formal *Communications Policy*. Information on the Combined Group's activities is communicated to security holders through:

- the publication of all media releases made by the Combined Group on the Combined Group's website under the News Room section;
- announcements made to the ASX during the course of the year which are also published on the Combined Group's website under the Corporate Governance section;
- the Annual Report, which is available for distribution to all security holders (unless specifically requested otherwise);
- the Half Year Financial Report which contains summarised financial information and a review of the operations during the period since the Annual Report; and
- other correspondence to security holders as required.

A copy of the *Communications Policy* is available on the Combined Group's website under the Corporate Governance Section.

Security holders are also encouraged to participate in the AGM to ensure a high level of accountability and identification with the Combined Group's strategies and goals. The senior engagement partner of the Combined Group's external auditor attends the Combined Group's AGM

and is available to answer questions from security holders about the conduct of the audit and the preparation and content of the auditor's report. The Chairman advises the security holders of this at the commencement of each AGM.

In addition, the AGM and the half year and full year results presentations are webcast and a summary of the transcript of the results presentation is available on the Combined Group's website.

Security holders can also register with the Combined Group's share registry, Computershare Investor Services, to receive email notification when relevant information, including ASX announcements, is posted onto the Combined Group's website. To further promote the use of electronic communications to security holders the Combined Group has joined the eTree initiative which is an incentive to encourage security holders to receive communications from the Combined Group, such as Notices of Meetings and Annual Reports, by way of email. Not only does this initiative reduce costs, it also promotes environmental responsibility.

## **PRINCIPLE 7: RISK MANAGEMENT**

### **Oversight of the Risk Management Function**

The Combined Group recognises the importance of managing risk and controlling its business activities in a manner which enables it to maximise profitable opportunities, avoid or reduce risks which may cause injury or loss, ensure compliance with applicable laws and regulations, and enhance resilience to external events.

The Board is responsible for approving and reviewing the Combined Group's risk management strategy and policy. The Board is assisted in its oversight function by the Audit Committee. The active identification of risks and the design and implementation of the risk management framework is the responsibility of management while business units are responsible for integrating the risk management framework within their business processes and systems.

Over many years the Board has developed and implemented procedures to ensure that the material risks facing the Combined Group are adequately and regularly identified, assessed, monitored and managed throughout the whole organisation. Through the measures referred to below, management reports to the Board as to the effectiveness of the Combined Group's management of its material business risks:

- annual budgets, divisional business plans and the Combined Group's strategic plan prepared for approval by Directors;
- actual trading results for the Combined Group and each division are presented to the Board at each Board Meeting and compared against budget and forecasts;
- comprehensive Board papers containing relevant operational, strategic, financial and legal information are prepared by each Divisional Executive General Manager and circulated to Directors before each Board meeting;
- monthly project reviews attended by senior management to monitor the progress of each individual project and the risk environment applicable. Material developments or changes are reported to the Board at the next Board meeting;
- financial authority limits have been set by the Board to delegate the Board's approval process for various matters including site acquisitions and developments. Where the cost is above those delegated authorities, the approval of the full Board is required; and
- insurance cover appropriate to the size and nature of the Combined Group's operations is carried to reduce the financial impact of any significant insurable losses.

Within the framework, and in addition to the daily management of business activities, each business unit is required to formally profile its risk environment which is reviewed and updated on a regular basis through a detailed risk register. This includes the identification and review of material risks, providing a risk rating, assessment of the key controls in place to manage the risk and the person/s responsible for implementing and reviewing controls. The outcome of each risk review is reported on a periodic basis to the Audit Committee. Minutes of the Audit Committee are circulated to the full Board.

It is the responsibility of the Executive Managers of the Combined Group to ensure that the risk register is regularly reviewed and updated and to bring any extreme risks promptly to the attention of the Managing Director and Chief Executive Officer and Chairman for consideration. If it is considered necessary, the Chairman will convene a meeting of the Board to consider and provide direction on how the risk should be managed.

The Board also receives regular updates from the Managing Director and Chief Executive Officer, the Chief Financial Officer, other senior managers and where relevant, external parties, on material risks faced by the Combined Group and the ongoing assessment and management of those risks.

The Chief Financial Officer reports in writing to, and attends, all Board meetings. The Chief Financial Officer also attends all meetings of the Audit Committee and provides written reports to that Committee, as required.

In addition, the Audit Committee reviews and reports to the Board in relation to the integrity of the Combined Group's financial reporting, internal control structures and risk management systems in relation to financial risks and the external audit function.

The Combined Group has established a *Risk Management Policy* which is available on the Combined Group's website under the Corporate Governance section. The *Risk Management Policy* and underlying procedures are reviewed annually by the Board to ensure their continued application and relevance.

The Combined Group's Compliance Committees oversee the operation of the Managed Investment Schemes (Schemes). The Compliance Committees meet on a quarterly basis in order to monitor compliance and risk management systems with the Schemes' compliance plans and to report on their findings to the Board of FKP Funds Management Limited as Responsible Entity of the Schemes. The Responsible Entity also has a Risk Management Policy in place which sets out the procedures required to be followed to ensure compliance with its risk management obligations under the *Corporations Act 2001* and its Australian Financial Services Licence.

### **Certification of Risk Management Controls**

The Managing Director and Chief Executive Officer and the Chief Financial Officer state in writing to the Board each financial year that the declarations made by them in accordance with section 295A of the Corporations Act in relation to the integrity of the Combined Group's financial report are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Statements from the Managing Director and Chief Executive Officer and Chief Financial Officer are based on a formal sign-off framework established throughout the Combined Group and reviewed by the Audit Committee as part of the financial reporting process.

### **PRINCIPLE 8: REMUNERATION**

The Board has established a Remuneration Committee, comprising two Non-Executive Directors and the Managing Director and Chief Executive Officer. The current members of the Committee are Mr Parker (Chairman), Mr Lee and Mr Brown and the qualifications of each member are set out in the Annual Report.

The Committee's responsibilities are detailed in a Charter, which has been approved by the Board. A copy of the *Remuneration Committee Charter* is available on the Combined Group's website under the Corporate Governance section.

The structure of Non-Executive Directors' remuneration and that of senior management is set out in the Remuneration Report within the Annual Report. Remuneration packages for senior management involve a balance between fixed and incentive-based remuneration, reflecting short- and long-term performance objectives appropriate to the Combined Group's circumstances and goals.

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Non-Executive Directors' remuneration is clearly distinguished from that of senior management, with remuneration solely by way of directors' fees, statutory superannuation entitlements and in the case of certain directors, participation in the Directors' Retirement Scheme. That Scheme entitles retiring Non-Executive Directors who were appointed prior to 30 June 2004 and who have held office for at least five years to receive a benefit equal to the amount of remuneration paid to them in the three years preceding retirement. Included in this amount is superannuation accumulated under the Superannuation Guarantee provisions. This scheme has not been approved by security holders as the scheme complies with that allowed under the *Corporations Act 2001*. The Board has suspended this scheme for any Non-Executive Directors appointed after 30 June 2004.

Details of the nature and amount of each element of the remuneration of each Director and the key management personnel for the financial year are also disclosed in the Remuneration Report set out on pages 18 to 24 of the 2010 Annual Report.