

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors ('the Board') of Headline Group Limited ('the Company') is responsible for the corporate governance practices of the consolidated entity. Headline Group and its controlled entities are referred to in these policies as 'the Group'. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board supports the core principles developed by the Australian Securities Exchange ("ASX") Corporate Governance Council ("the Council") as a basis for enhancing the credibility and transparency of our capital markets. The structures, policies and procedures already in place at the Company have been developed and implemented by the Board and management over many years to ensure the Company has historically operated on those principles.

The Board believes that the Company's Corporate Governance policies should be tailored to account for the size and structure of the Company, risks associated with the Company's operations and the Company's inherent strengths and weaknesses. The ASX concurs with this view and allows companies to explain deviations from the ASX Corporate Governance Council's recommendations.

Areas where the Company has deviated from the Council's recommendations are discussed below, but the Board believes the areas of non-conformance do not impact on the Group's ability to operate with the highest standards of Corporate Governance.

## Principle 1: Lay solid foundations for management and oversight

***Recommendation 1.1 : Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.***

The Board is responsible to shareholders for the Group's overall corporate governance practices, and is responsible for the direction and oversight of the Group's businesses on behalf of the shareholders.

The Board's responsibilities include:

- reviewing and determining the Group's strategic direction and operational policies;
- establishing goals for management and monitoring the achievement of these goals;
- reviewing and approving the Group's Business Plan;
- appointing and remunerating the Managing Director;
- approving all significant business transactions including acquisitions, divestments and property developments;
- monitoring business risk exposures and risk management systems;
- approving and monitoring financial and other external reporting;
- approving changes to the Group's capital structure;
- reporting to shareholders; and
- promoting ethical conduct.

The Board delegates responsibility for the formulation of strategy and administration of day-to-day business to the Managing Director and Chief Financial Officer who comprise the Company's senior management group.

The senior management group is responsible for:

- ensuring business development and other activities are conducted in accordance with the Group's overall business strategy;
- managing the Group's property developments, businesses and other investments to maximise returns to shareholders;
- informing the Board on a regular basis of the status of all projects and the performance of all Group's assets;
- managing relationships with investors and analysts;
- approving capital expenditure and business transactions within predetermined limits set by the Board;
- planning in accordance with the financial control guidelines which govern the allocation and management of financial resources throughout the Group;
- ensuring that appropriate financial reporting is provided to the Board on a monthly, six monthly and annual basis; and
- establishing and monitoring the Group's risk management framework to ensure that policies, guidelines and controls are effective in reducing the Group's operational and financial exposures to an acceptable level.

***Recommendation 1.2 Disclose the process for evaluating the performance of senior executives.***

Senior management's performance is assessed regularly against both qualitative and quantitative factors at board meetings.

There have been no departures from Principle 1 during the year ended 30 June 2009

## **Principle 2: Structure the board to add value**

The Board comprises the Executive Chairman, Managing Director and one Executive Director. The size and composition of the Board is formulated to provide an appropriate range of experience, skills, knowledge and perspective to enable it to appoint, guide and supervise a high standard of management for the Group's business. The names, skills, experience and expertise of each Director of the Company are set out in the Annual Report and on the Company's website.

### ***Recommendation 2.1 : A majority of the Board should be independent Directors***

Directors of Headline Group are considered to be independent when 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 independent judgement. In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. The Board considers an item to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the ability of the director in question to shape the direction of the Company's loyalty.

In accordance with this definition of independence, none of the current directors are independent directors by virtue of their substantial shareholdings in Headline Group as detailed in the Annual Report or by their management role. . The Board does not comprise a majority of independent directors and consequently its composition does not comply with Recommendation 2.1 of the ASX Corporate Governance Guidelines. This departure arises from the size and nature of operations of the Group.

However, the Board has adopted the following measures to ensure that independent judgment is achieved and maintained in respect of its decision-making processes:

- Directors are entitled to seek independent professional advice at the Company's expense, subject to the approval of the Board;
- Directors having a conflict of interest in relation to a particular item of business must absent themselves from the board meeting before commencement of discussion on the topic; and
- Non-executive directors confer on a needs basis without management in attendance.

Each director brings a range of complementary skills and experience to the Group as indicated in the Annual Report.

### ***Recommendation 2.2 : The Chairperson should be an independent Director***

The Company's Chairman is Mr Gordon Elkington. Whilst not independent and an executive, the Board considers that it is appropriate for him to be Chairman due to the size and nature of the Group, given his skills, experience and knowledge of the Group. This is a departure from Recommendation 2.2.

### ***Recommendation 2.3: The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.***

The Chairman is Mr Gordon Elkington and the Chief Executive Officer is Mr Brent Dennison, therefore as required under best practice, there is a separation of these two roles.

### ***Recommendation 2.4: The Board should establish a Nomination Committee.***

Due to the size and structure of the Company's Board, a Nominations Committee has not been established as required under ASX Recommendation 2.4. All directors may make recommendations to the Board regarding the membership of the Board, including proposed new appointments. However, all directors must agree unanimously on any new director appointments. In addition, the Company's Constitution provides that at each annual general meeting, one third of directors shall retire (and be eligible for re-election).

The Board believes that these alternative procedures are more than adequate to preserve the integrity of the Board.

### ***Recommendation 2.5: Disclose the process for evaluating the performance of the Board, its committees and individual directors.***

Due to the size and nature of the Group, the Board believes that external formal evaluation is not necessary as performance is continually being evaluated on an ongoing basis. This is therefore a departure from Recommendation 2.5.

### **Principle 3: Promote ethical and responsible decision making**

#### ***Recommendation 3.1: Companies should establish a code of conduct and disclose the code***

The Board encourages the highest standards of ethical conduct by all directors and employees of the Group. The Board has adopted a Code of Conduct & Ethics that sets out the principles and standards with which all Group's officers and employees are expected to comply in the performance of their respective functions. Officers and employees are expected to:

- comply with the law;
- act honestly and with integrity;
- reduce the opportunity for situations to arise which result in divided loyalties or conflicts of interest;
- use the Group's assets responsibly and in the best interests of the Company's shareholders; and
- be responsible and accountable for their actions.

Senior management immediately investigates possible failures to comply with the principles of ethical and responsible conduct, employing the use of third party expertise where necessary. The appropriate level of disciplinary action is applied where departures from these principles are confirmed.

This Code is regularly reviewed and updated as necessary to ensure it remains consistent with the Board's objectives.

#### ***Recommendation 3.2: Establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.***

#### **Dealing in Company Shares**

Officers, management and employees are actively encouraged to own shares in the Company. The Board's policy is that trading in the Company's shares and/or options over such shares by directors and staff should only occur in circumstances where the market is fully informed of the Group's activities. The Board considers at each month's board meeting whether trading in the Company's shares is appropriate in the coming month taking into account the circumstances which exist. The policy requires that Directors discuss any intention to trade in the Company's shares and/or options over such shares with the Chairman in circumstances where there exists a board decision that shares and/or options over such shares ought not to be traded. Senior management and employees require the approval of the Executive Chairman prior to trading. The Board recognises that it is the individual responsibility of each Director and employee to ensure that they comply with the spirit and letter of the insider trading laws, and that notification to the Board, the Chairman or the Managing Director of an intention to trade in no way implies their approval of any transaction.

### **Principle 4: Safeguard integrity in financial reporting**

#### ***Recommendation 4.1: The Board should establish an Audit Committee.***

The Company's Managing Director and Chief Financial Officer report in writing to the Board that the consolidated financial statements of the Group for each half and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards. The Audit Committee operates throughout the year with the primary objective to assist the Board of Directors in fulfilling the Board's responsibilities relating to the accounting, reporting and financial risk management practices of the Group. In fulfilling this objective, the Audit Committee meets at least two times each year.

The main duties and responsibilities of the Audit Committee include:

- review and consideration of statutory compliance matters;
- review of the annual and half-yearly financial reports;
- recommend to the Board nominations for appointment as external auditors;
- review the scope of the audit, the level of audit fees and the performance of the external auditors;
- liaison with external auditors, review of audit planning and consideration of audit results; and
- evaluation of the adequacy and effectiveness of the Group's administrative, operating and accounting policies and internal controls through active communication with operating management and the external auditors.

#### ***Recommendation 4.2: Structure the Audit Committee so that it consists only of non-executive directors, consists of a majority of independent directors and is chaired by an independent chair, who is not chair of the board and has at least three members.***

#### ***Recommendation 4.3 : The Audit Committee should have a formal charter.***

## **Principle 4: Safeguard integrity in financial reporting (continued)**

The members of the Audit Committee during the year were Mr G Elkington (Chairman) and Mr G Choo. Both members of the committee are not independent and hold executive positions and hence this represents a departure from Recommendation 4.2.

The Audit Committee also does not have a formal charter in accordance with Recommendation 4.3.

The departures from Recommendations 4.2 and 4.3 arise on account of the size and nature of the Group and the present structure of the Board. The Board is aware of the Corporate Governance Principles and Recommendations (2<sup>nd</sup> Edition), and will continue to work towards full adoption of the recommendations in line with growth and development of the Group in the years ahead.

## **Principle 5: Make timely and balanced disclosure**

*Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for the compliance and disclosure of those policies or a summary of those policies.*

Documented procedures are in place to identify matters that are likely to have a material effect on the price of the Company's securities and to ensure those matters are notified to the ASX in accordance with the Company's Listing Rule disclosure requirements. The Managing Director and Chief Financial Officer are responsible for monitoring the Company's activities in light of its continuous disclosure policy and where necessary discussing disclosure obligations with the Board.

The Company Secretary is responsible for all communications with the ASX. All communications with external stakeholders in respect of sensitive company information is subject to the relevant safeguarding and confidentiality procedures. These communications are undertaken in light of continuous disclosure requirements of the ASX and the broad principles of ensuring the market is fully informed of price sensitive information.

## **Principle 6: Respect the rights of shareholders**

*Recommendation 6.1: Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. Use company websites to complement the official release of material information to the market.*

The Board encourages communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group.

Mechanisms employed include:

- regular shareholder communications such as Half-Yearly Reports, and the Full Financial Report;
- financial results presentations at the Company's Annual General Meeting ("AGM");
- shareholder access to communications through the use of information technology such as the Company's website; and
- utilising Computershare, the Company's share registry service provider.

The Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and understanding of the Group's strategy and goals. The Company encourages the Group's external auditor to attend the AGM.

## **Principle 7: Recognise and manage risk**

*Recommendation 7.1: The Board or appropriate Board Committee should establish policies on risk oversight and management of material business risk and disclose a summary of those policies.*

The Board is responsible for oversight of the Group's risk management and control framework (the Group does not have a separate Risk Management Committee). The Audit Committee assists the Board in fulfilling its responsibilities in this regard by reviewing the financial and reporting aspects of the Group's risk management and control framework. The Group has implemented a policy framework designed to ensure that the Group's risks are identified and that controls are adequate, in place and functioning effectively.

This framework will incorporate the maintenance of comprehensive policies, procedures and guidelines that encompass the Group's activities. It addresses areas such as contract negotiation, project management, occupational health and safety, environmental management, trade practices, IT disaster recovery and business continuity planning.

## **Principle 7: Recognise and manage risk (continued)**

***Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.***

Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Managing Director and Chief Financial Officer having ultimate responsibility to the Board for the Group's risk management and internal control activities. Arrangements put in place by the Board to monitor risk management and internal controls include:

- regular monthly reporting to the Board in respect of operations and the financial position of the Group;
- reports by the Chairman of the Audit Committee and circulation to the Board of the minutes of each meeting held by the Audit Committee;
- presentations made to the Board throughout the year by appropriate members of the Group's management team (and/or independent advisers, where necessary) on the nature of particular risks and details of the measures which are either in place or can be adopted to manage or mitigate the risk; and
- any Director may request that operational and project audits be undertaken by management.

***Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is 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.***

Prior to signing the Group's annual financial statements, the Company's Managing Director and Chief Financial Officer report in writing to the Board that:

- the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

## **Principle 8: Remunerate fairly and responsible**

***Recommendation 8.1: The Board should establish a remuneration committee.***

***Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.***

The Group's policies relating to Directors' and Senior Executives' remunerations are set out in the Group's annual report.

Due to the size and nature of the Group, the Board has considered that establishing a formal remuneration committee will not achieve enhanced efficiency. As a result, the functions ordinarily undertaken by a remuneration committee are undertaken by the Board. The Group's policies relating to Directors' and Senior Executives' remuneration are set out in the Directors' report under the heading "Remuneration Report".

The Group does not have any scheme for retirement benefits, other than superannuation.

At the time of appointment, each Director and Senior Executive signs a formal employment contract outlining their duties, rights, responsibilities and any entitlements on termination. These duties and responsibilities are reviewed annually by the Board and when necessary is revised in consultation with the employee.

It is the Group's objective to provide maximum stakeholder benefit from the retention of high quality Board members and Senior Executives by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the nature and amount of executive directors' and officers' emoluments are linked to the Group's financial and operational performance.