

# Corporate Governance Statement



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DKN Financial Group Limited (Company) is committed to implementing a high standard of corporate governance. The Company complies with the recommendations of the Australian Securities Exchange Corporate Governance Council's as contained in the Corporate Governance Principles and Recommendations 2<sup>nd</sup> Edition issued in August 2007, to the extent the Board believes they are practical and applicable to the Company.

The Company is pleased to report that its practices are largely consistent with the principles and recommendations, and any departures are set out below.

This Corporate Governance Statement has been structured with reference to the Council's eight corporate governance principles.

## ***Principle 1 – Lay Solid Foundation for Management and Oversight***

*Recommendation 1.1 - Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions*

*Recommendation 1.2 - Companies should disclose the process for evaluating the performance of senior executives*

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to set the policies in order to drive the performance of the Company. The Board seeks to ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body.

The Board has delegated to the Chief Executive Officer and through the Chief Executive Officer to other senior executives, responsibility for the everyday management of the business.

The Board has also delegated a number of responsibilities to its Committees, being:

- Audit Committee
- Remuneration Committee

Further details on the division of the responsibilities of the Board and Management are set out in the Board Charter (which is available on the Company's website).

The Board, in conjunction with its Remuneration Committee, is responsible for establishing and updating the performance objectives and measures for the Chief Executive Officer from time to time. Evaluation of the performance of the Chief Executive Officer is carried out by the Board against these objectives. Evaluation of the Chief Executive Officer's performance is undertaken following completion of the annual financial statements.

## **Principle 2 – Structure the Board to add Value**

*Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.*

*Recommendation 2.1 - A majority of the Board should be independent directors*

*Recommendation 2.2 - The Chair should be an independent director*

*Recommendation 2.3 – The roles of the Chair and Chief Executive Officer should not be exercised by the same individual*

*Recommendation 2.4 – The Board should establish a Nomination Committee*

*Recommendation 2.5 – Companies should disclose the process for evaluating the performance of its Board, its committees and individual directors*

The Directors of the Company and a summary of their skills, qualifications, attendances at meetings and the period of office held are included in the Directors' Report.

The Company has seven Directors, of whom three are independent. P Dunn and K Wright are independent directors taking into account the ASX Corporate Governance Council's recommended criteria for independence. The Company also considers R. Hunwick (the Company's Chairman) to be an independent director as it has been some 22 months since the date of the 2009 Annual Report that he held the executive position of acting Chief Financial Officer. Three of the non-executive Directors (namely G. Della, C. Kelaher and C. Powell) are associated with substantial shareholders of the Company) whose input and support of the Company is considered invaluable and P. Butterworth is the Chief Executive Officer. As a result the Company's current Board structure does not comply with Recommendation 2.1. Given the relatively small size of the Company, the Board does not consider it appropriate to appoint further independent directors for the foreseeable future.

The roles of Chairman and Chief Executive Officer are exercised by different individuals.

The Board Charter provides for the ability of Directors to seek independent professional advice at the expense of the Company. The Director must first inform the Chairman about the nature of the opinion or information sought, the reason for the advice, the terms of reference for the advice and the estimated cost of the advice and obtain the approval of the Chairman. If the Chairman is seeking the advice he will need to obtain the approval of the Board.

Given the relatively small size of the Company, the Company has not established a separate Nomination Committee; rather these duties are carried out by the full Board.

On retirement by rotation in accordance with the Company's constitution, the assumption is that Directors, if willing, will be presented for re-election at the Company's Annual General Meeting.

The Board undertakes an informal ongoing assessment of its performance and the performance of its individual directors from time to time based on the objectives of the Company for the preceding financial year. Evaluation of the individual directors' performance has not occurred for the preceding financial

year. Given the size of the Company and its Board, no separate evaluation is conducted of the Board as a whole or its committees.

### ***Principle 3 – Promote Ethical and Responsible Decision Making***

*Recommendation 3.1 – Companies should establish a Code of Conduct and disclose the Code or a summary of the Code*

*Recommendation 3.2 – Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy*

The Company seeks to maintain high ethical standards at all times. The Company's Code of Conduct requires all Directors, Senior Executives and employees to conduct themselves with integrity in their business dealings, comply with their legal obligations and have regard to the reasonable expectations of all its stakeholders. A copy of the Code of Conduct is available at the Company's website.

The Company's policy in relation to trading in its own securities is summarised as follows (and full details are on the Company' website):

*Directors and employees of DKN (including their associates) should not buy or sell securities in DKN when they are in possession of price sensitive information which is not generally available to the market.*

*In addition, to avoid any adverse inference being drawn of unfair trading, Directors and employees should not, if at all possible, engage in short term (i.e. less than 12 months) trading in the Company's securities or deal in its securities during the two week period immediately preceding and one day following:*

- *release of the half-yearly results;*
- *release of the yearly results; or*
- *the Annual General Meeting*

*when it is customary for price sensitive information to be released.*

*Prior to a Director or an employee buying, selling or exercising options over the Company's securities the Director or employee must advise the Chairman (or Company Secretary in the case of employees) of their intentions and not proceed until approval in writing to the transaction has been granted.*

*Staff and Directors must notify the Chairman or Company Secretary in writing within 24 hours of:*

- *pledging their shares or options in the Company as security for a loan, borrowing, or other obligation or potential obligation;*
- *entering into any contract involving derivatives or other financial instruments which are in any way related to the Company's shares or securities (such as equity swaps, contracts for difference or loans of shares)*

*of the nature, amount, terms and duration of that encumbrance or contractual arrangement and they are encouraged to provide notice before such arrangements are entered into.*

#### **Principle 4 – Safeguard Integrity in Financial Reporting**

*Recommendation 4.1 – The Board should establish an Audit Committee*

*Recommendation 4.2 – The Audit Committee should be structured so that it; consists only of Non-Executive Directors, consists of a majority of independent directors, is chaired by an independent chair who is not chair of the Board and has at least three members*

The Company's Audit Committee was established in 2001, its current members are as follows:

- C Powell – Chairman
- R Hunwick
- K Wright
- P Dunn

The Committee which comprises only Non-Executive Directors is chaired by an individual who is not the chair of the Board and comprises more than three members. The Committee comprises three independent directors and one non-independent director and as such complies with Recommendation 4.2.

Members of the Audit Committee are selected and appointed by the Board as a whole based on the criteria set out in the Audit Committee Charter, including their skills and experience. All of the Audit Committee members have appropriate financial experience and an understanding of the financial services industry as set out in the Annual Report. Details of their attendance are set out in the Annual Report.

The External Auditors are invited to attend meetings of the Committee when it is deemed beneficial for them to do so. As part of its annual review of the external auditor pursuant to the Audit Committee Charter, the Committee makes recommendations to the Board for the appointment, reappointment or termination of the external auditor as well as the appointment of any new auditor and reviewing rotation requirements under the Corporations Act of the external audit engagement partner.

The Audit Committee Charter is available on the Company's website.

#### **Principle 5 – Make Timely and Balanced Disclosure**

*Recommendation 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies*

The Company has a written policy titled "Continuous Disclosure Policy", a copy of which is available on the Company's website. The objective of the Continuous Disclosure Policy is to ensure that price sensitive information which is required to be disclosed is identified and disclosed to the ASX in a timely manner in accordance with ASX Listing Rules, and that all ASX announcements are posted on the

Company's website as soon as practical after its release by the ASX and that there is adequate accountability at senior executive level.

The Company Secretary in consultation with the Chief Executive Officer and Chairman is responsible for the Company's compliance with its continuous disclosure obligations and is responsible for communications with the ASX.

From time to time the Company also releases to the ASX presentations made to various stakeholders to ensure that this information is available to the whole market.

### **Principle 6 – Respect the Rights of Shareholders**

*Recommendation 6.1 – Companies should 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*

The Company seeks to provide to all shareholders comprehensive, timely and equal access to balanced information about its activities so that they are in a position to make informed investment decisions and be actively involved and interested in the business.

Shareholders are kept informed by way of the following:

- Annual Report
- Half Yearly Report
- Annual General Meeting and any other shareholder meeting(s)
- DKN website, which includes copies of all announcements made to ASX for the last few years.

The Company welcomes questions and endeavours to answer any questions within the confines of information that is not market sensitive or that is already in the public domain.

The external auditor attends the Annual General Meeting of Shareholders and is available to answer questions in relation to the conduct of the audit and the audit report.

Other than this Corporate Governance Statement which outlines the Company's general policy in relation to communications with shareholders, the Company does not have a separate communications policy. In addition the Company has a specific corporate governance section on its website which sets out details of its corporate governance policies as well as a copy of this Corporate Governance compliance statement.

### **Principle 7 – Recognise and Managing Risk**

*Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies*

*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 on it 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.*

*Recommendation 7.3 – The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer 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.*

The Board is responsible for reviewing and approving the Company's overall risk management strategy, including determining the Company's appetite for risk.

Management has in place a Risk Management Committee which has responsibility for reviewing the operations of the DKN Group's activities to seek to ensure that material business risks are identified, understood, accepted or rejected, mitigated where it is practical to do so and are subject to ongoing review and management.

In addition the Board has established a Risk Management Committee Charter designed to oversee, identify and manage material business risks of the Company, a copy of which is on the website.

The Risk Management Committee generally meets on a quarterly basis and the results of these meetings are then required to be provided to the Audit Committee of the Board.

The Board requires the Chief Executive Officer and the Chief Financial Officer to certify on a half-yearly basis that the financial statements of the Company and the DKN Group are founded on a sound system of risk management and internal control which implements the policies adopted by the Board and that these systems operate effectively in all material aspects in relation to the financial reporting risks.

## **8 Remunerate Fairly and Responsibly**

*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 Board has in place a Remuneration Committee comprised of R. Hunwick, C. Kelaher and C. Powell and details of their attendance at meetings is set out in the Remuneration Report section of the Annual Report. The Committee's role is to assist the Board by reviewing and recommending remuneration, remuneration policies and practices.

The Board is responsible for determining and reviewing compensation arrangements for non-executive directors. As set out in the Remuneration Report, the Company distinguishes between the structure of remuneration for non-executive directors and the sole executive director. DKN does not have any schemes for retirement benefits other than superannuation for non-executive directors.

***DKN Board Approved – 30 October 2009***