

## Media Release

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### **Report finds corporate governance standards slipping across mid-caps sector**

More than 40% of Australia's listed companies in the mid-caps sector have inadequate corporate governance standards, with only two out of 150 companies achieving best practice standards.

The 2007 BDO Kendalls Mid-Cap Corporate Governance report, released today, highlights a deterioration in governance levels across the mid-caps sector, with 13 listed companies, or 8.7%, achieving the lowest possible score of 1 stars on a scale of 0-5 stars.

A further 32% of companies only achieved a 2-star rating, based on key governance factors such as board composition and independence, auditor independence, and having separate audit, remuneration and nomination committees in place. Most of these companies also have inadequate documentation in areas such as disclosure of related-party transactions or rigorous policies on risk management and share trading.

The report findings, independently compiled by The University of Newcastle Associate Professor Jim Psaros, are based on the 2006 annual report disclosures of the 150 largest "mid-sized" Australian listed companies (ASX 251-400) by market capitalisation at 31 December 2006).

"All things considered, the findings of the BDO 2007 Mid-Cap Corporate Governance Report present a reasonably disappointing picture," said BDO Kendalls director of Risk Advisory Services Andrew Pearce.

Mr Pearce said it might have been expected that the mid-cap companies would perform worse than the top 150 listed large-caps, given the large-caps' greater resources and increased ability to attract independent directors, but noted the mid-cap rankings had deteriorated since the release of the 2006 Horwath Australia Mid-Cap Corporate Governance report.

"Put simply there was both a decrease in companies with excellent corporate governance, and an increase in companies with significant corporate governance holes. It is hoped that companies have either not lost their nerve for corporate governance reforms or have not become a little more complacent at a time of sharemarket exuberance."

Of the companies surveyed, Launceston-based financial services group Tasmanian Perpetual Trustees achieved the highest ranking for the second year running with a maximum 5-star rating, with Sydney-based biotech group Life Therapeutics ranking second, also with 5-stars.

These companies demonstrated independence in all key areas including their board of directors, audit committees, remuneration committees and nomination committees, each of which met on a regular basis.

The two lowest-ranked companies were Brisbane-based resources group Kings Minerals and Perth-based property company United Overseas Australia, each achieving only a 1-star rating.

Key highlights of the report include:

- Less than 50% of mid-cap companies (69) have an independent chairman, and only 25% have a majority of independent directors.
- A high 90% of surveyed companies had an audit committee, with more than 80% having an independent chair.
- Almost 71% of mid-caps had a separate remuneration committee, however less than 40% had a separately constituted nomination committee and more than half (56.9%) did not have a majority of independent members.
- 14.7% of companies did not have a code of conduct; 14% did not have a risk management policy, and 38.7% did not have a share trading policy.

The University of Newcastle Associate Professor Jim Psaros said that the latest results clearly went against the improving trend in corporate governance evident over the past six years since the annual corporate governance report had been published.

“I noticed some companies going backwards in key areas in the last year and I think there may be a hint of complacency creeping in there, which is not a good thing. I fear that with the economy booming a number of the smaller companies do not appear to be as concerned about governance issues at the moment.”

Associate Professor Psaros said this was particularly evident across the mining sector, where the resources boom had increased the market capitalisations of many companies quite dramatically, propelling them into the mid-caps sector. “Now that they have reached some prominence, sometimes their corporate governance is not matching their profile just yet,” he said.

Mr Pearce added that access to suitably qualified independent directors amid calls for directors to limit their breadth of directorships remained a serious constraint.

“Solutions include the independence of sub-board committees, the use of independent advisers, increased guidance and assistance in ensuring the clarity and transparency of reporting to investors for non-compliance with best practice, and regulators aiding companies in getting access to suitably qualified independent specialists.

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