

# BKI INVESTMENT COMPANY LIMITED

## CORPORATE GOVERNANCE STATEMENT

The Board of BKI Investment Company Limited (the Company) are committed to achieving and demonstrating the highest standards of corporate governance, and corporate governance arrangements for the Company are set by the Board having regard to the *Corporate Governance Principles and Recommendations 3<sup>rd</sup> Edition* set by the ASX Corporate Governance Council ("the ASX Principles and Recommendations"). Unless otherwise stated, the company complies with the ASX Principles and Recommendations.

The information in this statement is current as at 4 August 2015 and has been approved by the Board.

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

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

Recommendation		Status
1.1	<p><b>A listed entity should disclose:</b></p> <p>(a) the respective roles and responsibilities of its board and management; and</p> <p>(b) those matters expressly reserved to the board and those delegated to management.</p>	<p>This has previously been disclosed in the Annual Report. The Board Charter has been updated to satisfy these requirements, and is available at:</p> <p><a href="http://bkilimited.com.au/about-us/corporate-governance/#board">http://bkilimited.com.au/about-us/corporate-governance/#board</a></p> <p>This has previously been disclosed in the Annual Report. The Board Charter has been updated to satisfy these requirements, and is available at:</p> <p><a href="http://bkilimited.com.au/about-us/corporate-governance/#board">http://bkilimited.com.au/about-us/corporate-governance/#board</a></p>
1.2	<p><b>A listed entity should:</b></p> <p>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</p> <p>(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</p>	<p>This is required by the Policy &amp; Procedure for Selection and Appointment of Directors, which is available at:</p> <p><a href="http://bkilimited.com.au/about-us/corporate-governance/#selection">http://bkilimited.com.au/about-us/corporate-governance/#selection</a></p> <p>The Company has complied with this requirement each year since listing in the information included in the Notice of Meeting issued to shareholders.</p>
1.3	<p>A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p>	<p>Contracts of Employment are in place with each senior executive setting out the terms of their appointment.</p> <p>The Company is in the process of executing Contracts of Appointment with each director, and therefore currently does not comply with this recommendation.</p>
1.4	<p>The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board</p>	<p>The company secretary is accountable directly to the Board.</p>
1.5	<p><b>A listed entity should:</b></p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p>	<p>The company's Diversity Policy satisfies these requirements.</p>

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(b) disclose that policy or a summary of it; and	The company's Diversity Policy is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#diversity">http://bkilimited.com.au/about-us/corporate-governance/#diversity</a>
(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:  (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or  (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.16	The Company has a Report on Diversity disclosing each of these requirements. The Report on Diversity is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#diversityreport">http://bkilimited.com.au/about-us/corporate-governance/#diversityreport</a>
<b>1.6</b> <b><i>A listed entity should:</i></b>  (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and	The Board Charter contains provisions that govern the annual performance evaluation of the Board
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period	A performance evaluation was undertaken during 2015FY
<b>1.7</b> <b><i>A listed entity should:</i></b>  (a) have and disclose a process for periodically evaluating the performance of its senior executives; and	The process for evaluating the performance of Key Management Personnel and other Key Executives is outlined in the Remuneration Report included in the Annual Report
(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	A performance evaluation for Key Management Personnel and other Key Executives was undertaken during 2015FY in accordance with that process

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## Principle 2 – Structure the board to add value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

Recommendation	Status
<p><b>2.1</b> The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	<p>(1) The Company has a nomination committee. All directors not scheduled for re-election at the next AGM are members of the committee, and as such the number of members varies between two and three.</p> <p>(2) The Committee Chairman is not independent</p> <p>(3) The Committee Charter is located at <a href="http://bkilimited.com.au/about-us/corporate-governance/#nominations">http://bkilimited.com.au/about-us/corporate-governance/#nominations</a></p> <p>(4) &amp; (5) The committee members and details of meetings held are included in the 2015 Annual Report</p>
<p><b>2.2</b> A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p>	<p>The skills matrix is detailed in the Policy &amp; Procedure for Selection and Appointment of Directors, which is located at : <a href="http://bkilimited.com.au/about-us/corporate-governance/#selection">http://bkilimited.com.au/about-us/corporate-governance/#selection</a></p>
<p><b>2.3</b> <b><i>A listed entity should disclose:</i></b></p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	<p>Refer following disclosure on independence</p> <p>Refer following disclosure on independence</p> <p>Disclosed in the 2015 Annual Report</p>
<p><b>2.4</b> A majority of the board of a listed entity should be independent directors.</p>	<p>The Company has not followed this recommendation – refer following disclosure on independence</p>
<p><b>2.5</b> The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p>	<p>The Chairman is not the CEO of the entity, but is not an independent director – refer following disclosure on independence</p>

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<p><b>2.6</b> A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.</p>	<p>The program for induction is outlined in the Policy &amp; Procedure for Selection and Appointment of Directors, which is located at :</p> <p><a href="http://bkilimited.com.au/about-us/corporate-governance/#selection">http://bkilimited.com.au/about-us/corporate-governance/#selection</a></p> <p>The Company does not have a formal professional development program for directors. The Nomination Committee considers the Board Skills Matrix at least annually to ensure the board as a whole and individual directors possess skills required by the Company, and the entire Board discusses developments in accounting and compliance requirements on an ongoing basis.</p>

### **Director Independence**

The Board currently comprises two independent Non-Executive Directors and two Non-Executive Directors, and the Chair is not an Independent Director.

Of the members of the Board, Mr Hall and Mr Huntley are considered independent. Mr Hall is defined as independent despite being a BKI director for over ten years. During this time Mr Hall has never been engaged in an executive capacity nor has he partaken in any management activities of the company, and his interaction with current BKI management has always been at a governance level. Mr Huntley is defined as independent as his shareholding in the Company at less than 5% of issued capital is not considered substantial.

Mr Millner although meeting other criteria, and bringing independent judgement to bear on his role, is not defined as independent, primarily due to the fact that he is an officer of Washington H. Soul Pattinson and Company Limited, which is a substantial shareholder of the Company.

Mr Payne although meeting other criteria, and bringing independent judgement to bear on his role, is not defined as independent, primarily due to the fact that he is an officer of Brickworks Limited, which is an associated entity of Washington H. Soul Pattinson and Company Limited, a substantial shareholder of the Company.

In relation to Director independence, materiality is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Group is considered material. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it impacts the shareholders' understanding of the Director's performance.

Recommendations 2.4 and 2.5 have not been followed because the Board believes that all Directors exercise and bring to bear an unfettered and independent judgement towards their duties. BKI listed on the Australian Stock exchange on 12 December 2003 to take over the investment portfolio of Brickworks Limited and given their long standing association with the BKI Portfolio the Board is satisfied that Mr Millner and Mr Payne play an important role in the continued success and performance of the Group.

In accordance with the Corporations Act 2001, any member of the Board who has an interest that could conflict with those of the Company must inform the Board. Where the Board considers that a significant conflict exists, the Board will exercise its discretion as to whether the Director concerned should remain in the meeting but be required to refrain both from participating in the relevant discussion and voting on any matter relating to the conflict, or whether the Director concerned should remove themselves from the meeting while the matter is considered.

Mr Millner and Mr Payne do not meet the criteria for independence in accordance with the ASX Corporate Governance Principles and Recommendations, however, for the reasons stated above they can be considered to be acting independently and in the best interest of the Group in the execution of their duties.

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## Principle 3: Act ethically and responsibly

A listed entity should act ethically and responsibly.

Recommendation		Status
3.1	<b><i>A listed entity should:</i></b>	
	(a) have a code of conduct for its directors, senior executives and employees; and	The Company has a Directors' Code of Conduct and an Employee Code of Conduct
	(b) disclose that code or a summary of it.	The Directors' Code of Conduct is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#directorconduct">http://bkilimited.com.au/about-us/corporate-governance/#directorconduct</a>  The Employee Code of Conduct is available at <a href="http://bkilimited.com.au/about-us/corporate-governance/#executiveconduct">http://bkilimited.com.au/about-us/corporate-governance/#executiveconduct</a>

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## Principle 4: Safeguard integrity in corporate reporting

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

Recommendation		Status
4.1	<p><b>The board of a listed entity should:</b></p> <p>(a) have an audit committee which:</p> <ul style="list-style-type: none"> <li>(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</li> <li>(2) is chaired by an independent director, who is not the chair of the board,</li> </ul> <p>and disclose:</p> <ul style="list-style-type: none"> <li>(3) the charter of the committee;</li> <li>(4) the relevant qualifications and experience of the members of the committee; and</li> <li>(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ul> <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>(1) The Company has an audit committee with three members, the majority of whom are independent directors.</p> <p>(2) The Committee Chairman is independent</p> <p>(3) The Committee Charter is located at <a href="http://bkilimited.com.au/about-us/corporate-governance/#audit">http://bkilimited.com.au/about-us/corporate-governance/#audit</a></p> <p>(4) the qualifications and experience of all directors are included in the Directors' Report</p> <p>(5) Details of meetings held are included in the 2015 Annual Report</p>
4.2	<p><b>A listed entity should:</b></p> <p>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	<p>The Company complies with this recommendation.</p>
4.3	<p><b>A listed entity should:</b></p> <p>A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.</p>	<p>The Company complies with this recommendation.</p>

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## Principle 5: Make timely and balanced disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

Recommendation		Status
5.1	<b>A listed entity should:</b>	The Company has a Continuous Disclosure & Shareholder Communications Policy.
	(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and	
	(b) disclose that policy or a summary of it.	This policy is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#continuous">http://bkilimited.com.au/about-us/corporate-governance/#continuous</a>

## Principle 6: Respect the rights of security holders

A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

Recommendation		Status
6.1	<b>A listed entity should:</b> provide information about itself and its governance to investors via its website.	The Company complies with this recommendation.
6.2	<b>A listed entity should:</b> design and implement an investor relations program to facilitate effective two-way communication with investors.	This information is included in the Company's Continuous Disclosure & Shareholder Communications Policy, which is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#continuous">http://bkilimited.com.au/about-us/corporate-governance/#continuous</a>
6.3	<b>A listed entity should:</b> disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	This information is included in the Company's Continuous Disclosure & Shareholder Communications Policy which is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#continuous">http://bkilimited.com.au/about-us/corporate-governance/#continuous</a>
6.4	<b>A listed entity should:</b> give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	The Company complies with this recommendation.

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## Principle 7: Recognise and manage risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

Recommendation	Status
<p><b>7.1</b> <i>The board of a listed entity should:</i></p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	<p>The Company has established an Investment Committee to manage investment risk, which is the Company's primary risk as assessed by the Board. The investment committee does not have a majority of members who are independent directors, and the Chairman is the Chairman of the Board, who is not considered to be independent.</p> <p>The Investment Committee does not have a Charter.</p> <p>The members of the Investment Committee are listed in the following disclosure on risk management. Attendance by Non-Executive directors at meetings of the Investment Committee is summarized in the 2015 Annual Report</p> <p>The Company has a Risk Management Policy that provides guidance for the full Board in discharging its responsibilities in risk management, which is considered appropriate given the size of the Board. The policy is available at:</p> <p><a href="http://bkilimited.com.au/about-us/corporate-governance/#riskmanagement">http://bkilimited.com.au/about-us/corporate-governance/#riskmanagement</a></p> <p>Refer following disclosure on risk management.</p>
<p><b>7.2</b> The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	<p>The Company complies with this recommendation.</p> <p>A review was conducted during 2015FY</p>
<p><b>7.3</b> <i>A listed entity should disclose:</i></p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>The Company does not have an internal audit function.</p> <p>The Board reviews the implementation of the Risk Management Policy and the entity's risk management framework on an annual basis.</p>
<p><b>7.4</b> A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>The Company does not have any material exposure to economic, environmental and social sustainability risks.</p>



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The Board operates to minimise exposure to investment risk, in part, by implementing stringent processes and procedures to effectively manage investment risk.

Management of investment risk is fundamental to the business of the Group being an investor in Australian listed securities. An Investment Committee has been established to perform, among other roles, investment risk mitigation.

The Investment Committee consists of the following members:

**RD Millner (Chairman)**

**AJ Payne**

**IT Huntley**

**TCD Millner**

The main responsibilities of the Committee are to:

- assess the information and recommendations received from the management team regarding the present and future investment needs of the Group
- assess the performance of the Chief Executive Officer in his role as portfolio manager
- evaluate investment performance.

The Board is committed to the identification and quantification of risk throughout the Group's operations.

Considerable importance is placed on maintaining a strong control environment. The Board has approved a Risk Management Policy governing the effective discharge of the responsibilities of the Board and Executives for the management of business, market, credit, operational liquidity and reputational risk. There is an organisational structure with clearly drawn lines of accountability. Adherence to the code of conduct is required at all times and the Board actively promotes a culture of quality and integrity.

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Recommendation		Status
8.1	<p><b>The board of a listed entity should:</b></p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	<p>(1) The Company has a remuneration committee with four members, of whom two are independent. - refer below commentary on committee membership.</p> <p>(2) The current Chair of the committee, Mr AJ Payne is not independent - refer below commentary on committee Chairman's role.</p> <p>(3) The Remuneration Committee Charter is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#remuneration">http://bkilimited.com.au/about-us/corporate-governance/#remuneration</a></p> <p>(4) &amp; (5) The committee members and details of meetings held are included in the 2015 Annual Report</p>
8.2	<p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	<p>The Director Remuneration Policy is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#director">http://bkilimited.com.au/about-us/corporate-governance/#director</a></p> <p>The Executive Remuneration Policy is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#executive">http://bkilimited.com.au/about-us/corporate-governance/#executive</a></p>
8.3	<p><b>A listed entity which has an equity-based remuneration scheme should:</b></p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p>	<p>This is covered by the Executive Remuneration Policy</p>
	<p>(b) disclose that policy or a summary of it.</p>	<p>This is available at: <a href="http://bkilimited.com.au/about-us/corporate-governance/#executive">http://bkilimited.com.au/about-us/corporate-governance/#executive</a></p>

## **Independence of Remuneration Committee**

The Group has established a Remuneration Committee consisting of the following members:

**AJ Payne (Chairman)**  
**DC Hall**  
**RD Millner**  
**IT Huntley**

As noted on page 4 of the Corporate Governance Statement, neither Mr RD Millner nor Mr AJ Payne is considered to be independent.

The Directors of the Company agree that, given the size of the Board and the nature of the Company's activities, it is appropriate for all directors to be members of the remuneration committee, notwithstanding that the Company therefore does not comply with Recommendation 8.1(a)(1). The Directors also agree

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that Mr Payne, while not classified as independent, brings independent judgment to bear on his role, and is an appropriate committee chairman given the scope of his executive responsibilities as Group CFO of Brickworks Limited.

## **Trading Policy**

A copy of the Company's Share Trading Policy, which has been fully endorsed by the Board and applies to all Directors and employees, is available at <http://bkilimited.com.au/about-us/corporate-governance/#share>