

## **CORPORATE GOVERNANCE FRAMEWORK AT ABANO**

We consider the nine governance principles identified in the Corporate Governance in New Zealand Principles and Guidelines report, drafted and released by the New Zealand Securities Commission in 2004, provide an appropriate guideline for our policies and practices and have applied these to our comprehensive corporate governance code.

We are also confident that our governance practices comply with the NZX Corporate Governance Best Practice Code in its entirety, for the year ended 31 May 2009.

The company will continue to monitor developments in best practice in the governance area and update its policies accordingly, to ensure it maintains the most appropriate standards for governance for Abano.

### **THE BOARD OF DIRECTORS**

The board of directors is elected by shareholders to govern Abano Healthcare Group in the shareholders' interests, and is the final body of responsibility for all decision making within the Company.

The board's key responsibilities are to formulate the strategic direction of the Group, to oversee the financial and operational controls of the business and to ensure appropriate risk management strategies and policies.

Our governance structure and practices encourage the highest standards of ethical conduct, and provide accountability and control systems commensurate with the risks involved.

The board is also responsible for the fostering of corporate culture, the appointment and remuneration of senior executives, the adoption of corporate plans and policies, the approval of transactions of substance and the review of business risks.

Board procedures and conduct are governed by the Company's Constitution and by the Directors' Manual of Board Policies, Procedures and Governance (Board Policy Manual). This manual serves as a reference for directors in focusing on, and evaluating, the board's framework, procedures and matters of governance.

#### **Ethical conduct**

The board and management of Abano Healthcare Group Limited are committed to ensuring best practice in corporate governance is adhered to, and that the highest ethical standards are maintained by directors, staff and suppliers in all activities conducted by the Group or in the interests of the Group.

The board has adopted a policy on business ethics which is designed to formalise the Group's commitment to the highest standards of ethical conduct and to provide employees and representatives with clear guidance on those standards.

The policy addresses conflicts of interest, receipt of gifts and entertainment, fair business practices, fair employment practices and contractual obligations. A separate 'whistle

blowing' policy provides an avenue for employees to gain direct access to the managing director and/or chairman of the Audit Committee if they believe there are issues that need to be raised.

#### **Selection and role of the chairman**

The chairman is selected by the board from non-executive directors. The board supports the separation of the role of chairman and managing director. The chairman's role is to manage the board effectively, to provide leadership to the board, and to facilitate the board's interaction with the managing director.

#### **Board membership**

The board currently consists of five independent directors, one executive director and one executive managing director, who are elected based on the value they bring to the board and against set criteria detailed in the nominations committee charter.

Each Abano director is a good seasoned businessperson, who has gained broad experience in a larger organisation or a professional practice. They provide value by making quality contributions to corporate governance matters, conceptual thinking and strategic planning, policies and providing guidance to enable management to increase profitable growth in the years ahead.

They have the necessary time available to devote to the position, broaden the board's expertise, have a personality that is compatible with the other directors and have a strong market perception.

The board consists of:

- Alison Paterson Independent chairman
- Trevor Janes Independent deputy chairman
- Phil Newland Independent director
- Susan Paterson Independent director
- Danny Chan Independent director
- Peter Hutson Executive director
- Alan Clarke Executive Managing director

The number of elected directors and the procedures for their retirement and re-election at annual meetings of shareholders are set out in the Constitution of the Company.

#### **Director independence**

In order for a Director to be considered independent, the board has determined that he or she must not be an executive of the Company, and must have no disqualifying relationship. The Company follows the independence guidelines of the NZX Listing Rules.

The board has determined that all directors are independent, except for the managing director, Alan Clarke and executive director, Peter Hutson. Mr Hutson is a founder, minority shareholder and employee of Bay Audiology Limited. He also has interests in Healthcare Industry Limited, which has a 19.7% shareholding in Abano.

#### **Nomination and appointment of new directors**

The procedures for the nomination and appointment of directors are governed by Abano's constitution.

The nomination committee is responsible for identifying and recommending candidates to the board, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other Directors.

Directors may also be nominated by shareholders under NZX Listing Rule 3.3.5. Shareholders are provided with ten business days' notice of the closing date of nominations, which is not greater than two months prior to the Annual Meeting. Abano notifies shareholders of this time period through a market announcement to the NZX.

A director may be appointed by ordinary resolution and all directors are subject to removal by ordinary resolution.

The board may at any time appoint additional directors. A director appointed by the board shall hold office only until the next annual meeting of the company but shall be eligible for election at that meeting.

One third of the directors shall retire from office at the annual meeting each year. The directors to retire shall be those who have been longest in office since they were last elected or deemed elected.

#### **Director education**

Abano encourages all directors to undertake appropriate training and education so that they may best perform their duties. In addition, all directors are regularly updated on relevant industry and company issues, including briefings from key executives and ongoing presentations to the board by all business units.

#### **Board access to information and advice**

Directors receive materials for board meetings four days in advance, except in the case of special meetings, where the time period may be shorter due to urgency of the matter to be considered.

All directors have access to executives to discuss issues or obtain information on specific areas in relation to matters to be discussed at board meetings, or other areas as they consider appropriate.

The board, board committees and directors, subject to the approval of the chairman, have the right to seek independent professional advice at Abano's expense, to enable them to carry out their responsibilities.

#### **Meetings held and attended**

The table below sets out the board and sub-committee meetings attended by directors during the course of the financial year.

	MONTHLY BOARD MEETINGS	AUDIT	REMUNERATION
Alison Paterson	21	2	1
Trevor Janes	21	2	0
Phil Newland	21	0	1
Susan Paterson	21	0	1
Graeme Edmond*	12	0	0
Danny Chan**	7	1	0
Peter Hutson***	7	0	0
Alan Clarke	20	2	0

\*Graeme Edmond resigned 31 December 2008

\*\*Danny Chan appointed 19 December 2008

\*\*\*Peter Hutson appointed 25 November 2008

#### **Disclosure of interests by directors**

The Board Policy Manual sets out procedures to be followed where directors have an interest in a transaction or proposed transaction or are faced with a conflict of interest. Each business in the Group is required to maintain an interests register in which particulars of certain transactions and matters involving directors must be recorded. The interests register for Abano Healthcare and its subsidiaries is available for inspection at its registered office.

Details of all matters entered into the interests register by individual directors are in the Annual Report. The declaration of an interest by a director in a particular entity as a shareholder or director serves notice that the director may benefit from any transaction between the Company or the Group and the identified entities.

#### **Directors' share dealings**

The Board Policy Manual sets out the procedures to be followed by directors when trading in Abano Healthcare shares. The policy adheres to the share trading protocol of the NZX.

Details of directors share dealings are outlined in the Annual Report.

#### **Directors' use of information**

No member of the board of Abano Healthcare, or its subsidiaries, issued a notice to use information received by them in their capacity as directors, which would not otherwise have been available to them.

#### **Indemnification and insurance of officers and directors**

The Group has arranged a policy of directors' and officers' liability insurance with QBE Insurance (International) Limited which ensures that generally directors and officers will incur no monetary loss as a result of actions undertaken by them as officers or directors.

#### **Directors self evaluation**

The board is responsible to shareholders for the strategic overview and direction of the group. The board has a policy of annual evaluation of individual and board performance. The evaluation is undertaken by each member of the board. Any issues identified are discussed and action taken to improve on those areas.

#### **BOARD COMMITTEES**

To assist directors in carrying out their duties, the board has two standing committees, comprising only non-executive directors - the audit committee and the remuneration committee - and one standing committee comprising all directors - the nominations committee - to focus on specific areas of responsibility.

The committees meet as required and have terms of reference, which are approved and reviewed by the board. Minutes of each committee meeting are forwarded to all members of the board and all board members have a standing invitation to attend any committee meeting. Each committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

## **Audit committee**

The role of the audit committee is to assist the board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding accountancy practices, policies and controls relative to the Group's financial position, and to review and make appropriate enquiry into the audits of the Company's financial statements. This responsibility includes providing the board with additional assurance about the quality and reliability of the financial information used by the board, and of the financial information issued publicly by the Group.

Although the board as a whole is responsible for the accuracy and relevance of the Group's financial statements, the audit committee provides an additional, and more specialised, oversight of the financial reporting process. The committee also reviews operation of internal controls and the quality and cost of the audit undertaken by the Group's external auditors.

The audit committee comprises three non-executive directors, of whom at least two must be independent, and at least one must be considered a financial expert. The chairman of the audit committee shall not be the chairman of the Company.

The audit committee members are T.D. Janes (chair), A.M. Paterson and D.Chan and it met twice in the past financial year. Managing director, Alan Clarke, and chief financial officer, Richard Keys, have standing invitations to join the audit committee meetings. In addition, the external auditor attends meetings of the audit committee.

## **Remuneration committee**

The primary role of the remuneration committee is to review and recommend the remuneration, benefits and terms of employment of the Group's senior executives, including the managing director. This role also includes responsibility for incentive performance packages and fringe benefit policies. In carrying out this role, the sub-committee acts independently of senior management of the Company and obtains independent advice on the appropriateness of remuneration packages.

The remuneration committee comprises S.M. Paterson (chair), A.M Paterson and P.S. Newland. It met once during the past financial year.

## **Nomination committee**

The role of the nomination committee is to identify and recommend candidates for directors, to the board, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other directors. The nomination committee comprises all of the directors.

## **REMUNERATION AT ABANO**

### **Remuneration of directors**

Remuneration of directors and executives is the key responsibility of the remuneration committee.

Directors' fees are within the \$357,500 approved at the 2007 annual meeting. All non-executive directors receive \$39,500 p.a., each committee chair receives a further \$5,000 p.a., with

the deputy chairman receiving an additional \$10,000 p.a. The chairman receives a total of \$79,500 p.a.

Details of directors' remuneration are detailed in the Annual Report.

Board members are encouraged to hold shares in Abano, however, all fees are paid in cash and it is up to the individual director's discretion to purchase shares in the Group if he/she wishes and in line with the Abano share trading policy, in compliance with the Trading Securities legislation.

Under the NZ Listing Rule 3.5.2, the board may only make a payment to a director upon cessation or retirement from office with shareholder approval. Abano's current board policy is that no sum is paid to a director upon retirement or cessation of office.

### **Remuneration of executives**

Executive remuneration comprises a fixed base salary and a variable short term bonus paid annually. Bonuses are paid against targets agreed with executives at the commencement of the year, and are based on profitability, growth and personal objectives. Once the level of bonus achieved has been determined, the executive is given the choice of taking the bonus in the form of cash or ordinary shares.

In the case of shares, the price at which shares are issued is the average closing share price of ordinary shares in Abano Healthcare on the NZX over the five business days immediately following the announcement of the company's annual result.

In addition, there is a long-term incentive plan for senior members of the Group's management team, which was approved at the annual meeting in November 2008. The long term incentive will be granted based on Abano achieving certain performance criteria over the three years. Details of this scheme can be found on the website at [www.abanohealthcare.co.nz](http://www.abanohealthcare.co.nz).

Details of executives' remuneration and entitlements are detailed under Remuneration of Employees information in the Annual Report.

## **MANAGING RISK**

The board has overall responsibility for the company's system of risk management and internal control and has procedures in place to provide effective control within the management and reporting structure.

Financial statements are prepared monthly and are reviewed by the board progressively throughout the year to monitor management's performance against budget goals and objectives, and the board requires managers to identify and respond to risk exposures. In addition, a quarterly formal risk assessment review is presented to the board by the managing director, which identifies areas of exposure and strategies to mitigate these.

A structured framework is in place for capital expenditure, including appropriate authorisation and approval levels which place a high emphasis on the commercial logic for the investment.

The board has set limits to management's ability to incur expenditure, enter contracts and acquire or dispose of assets.

Risk profiles which identify, assess, monitor and report the company's key business risks are reviewed by the board. These risk profiles also identify the key risk mitigation strategies which are in place.

The board reviews an overall view of the risk profile of the Group and is responsible for monitoring corporate risk assessment processes.

## **DISCLOSURE**

Abano's continuous disclosure policy governs the release to market of all material information that may affect the value of the company. The board requires that senior management, particularly the managing director and chief financial officer, discuss if information is material and arrange for its release to the market. The continuous disclosure officer is the chief financial officer.

In addition, the managing director and chief financial officer are responsible for the generation of financial reports, for review by the audit committee and for audit by external auditors.

### **Shareholder reporting**

In each year, the Group provides shareholders with an annual and interim (six-month) report. This year, for the first time, Abano has produced and mailed out a summary Shareholder Review for the 2009 financial year to all shareholders. This is a companion document to the more accounts-focused Annual Report which is available on request and can be viewed on the company website.

The Group also provides shareholders with a bi-annual newsletter, which provides an overview of the Group's progress, an update of each sector's performance and news from the healthcare and medical services market. Copies of all major news releases, announcements and company reports are available on the company's website at [www.abanohealthcare.co.nz](http://www.abanohealthcare.co.nz).

Shareholders may subscribe to receive copies of company documents and news announcements electronically by completing the online form at [www.abanohealthcare.co.nz/shareholderservices](http://www.abanohealthcare.co.nz/shareholderservices).

Shareholders may raise matters for discussion at annual meetings and have the ultimate control in corporate governance by voting directors on or off the board.

The company maintains written policies which provide guidance and accountability for compliance with continuous disclosure, and other listing requirements of the NZX.

### **Stakeholders' interests**

The Group has a wide range of stakeholders and maintains open channels of communication for all audiences. Bi-annual newsletters, half year reports and annual reports are distributed to a wide range of stakeholders by the Group and management encourage phone calls and communications from interested parties.

In addition, regular newsletters are produced and distributed by individual businesses within the Group and provide updates of business activities and events.

## **AUDITOR INDEPENDENCE**

Audit work is separated from non-audit services. This is beyond recommendations proposed by IFAC (International Federation of Accountants) regulations, the 2002 ICANZ (Institute of Chartered Accountants of New Zealand) publication entitled "Corporate Transparency" and the NZX, to ensure that appropriate independence is maintained.

The audit committee reviews the quality and cost of the audit undertaken by the Group's external auditors, and provides a formal channel of communication between the board, senior management and external auditors. The committee also assesses the auditor's independence on an annual basis.

At the annual meeting in November 2008, shareholders approved the re-appointment of PricewaterhouseCoopers as external auditors for the Company.

## **SUBSEQUENT EVENTS**

There is no material change to the accounts as presented.