

## **CORPORATE GOVERNANCE**

**AS A LISTED COMPANY WITH THE AUSTRALIAN SECURITIES EXCHANGE (ASX), THE COMPANY MUST REPORT ON ITS MAIN CORPORATE GOVERNANCE PRACTICES BY REFERENCE TO THE PRINCIPLES AND RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL.**

**This report is prepared with reference to the 2<sup>nd</sup> Edition of the Corporate Governance Principles and Recommendations.**

### **RECOMMENDATION 1.1**

**Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.**

The Board of Directors has been charged by shareholders with overseeing the affairs of the Group to ensure that they are conducted appropriately and in the interests of all shareholders. The Board defines the strategic goals and objectives of the Group, as well as broad issues of policy and establishes an appropriate framework of Corporate Governance within which the Board members and management must operate. The Board reviews and monitors management and the Group's performance. The Board is responsible for ensuring the maintenance of Corporate Governance policies and procedures in accordance with prevailing best practices and within legal and social requirements. The Board has also taken responsibility for establishing control and accountability systems/processes and for monitoring senior executive performance and implementation of strategy.

Management is charged with the day to day running and administration of the Group consistent with the objectives and policies as set down by the Board. Within this framework, the Managing Director is directly accountable to the Board for the performance of the management team. Mr. John Carlile was appointed as Managing Director on 14 January 2008.

### **RECOMMENDATION 1.2**

**Companies should disclose the process for evaluating the performance of senior executives.**

Each of the Company's senior executives report directly to the Managing Director. The Board and the Managing Director closely monitor the performance of individual senior executives.

Formal evaluation of senior executives has not been undertaken due to the extreme financial and operational pressures that the Company has endured.

The Board proposes to establish formal evaluation procedures once the Company's operations have stabilised and the process of rebuilding the Company has been materially advanced.

### **RECOMMENDATION 1.3**

**Companies should provide the information indicated in the Guide to reporting on Principal 1.**

The Company has provided this information.

### **RECOMMENDATION 2.1**

**A majority of the Board should be independent Directors.**

The Company's Board is not comprised of a majority of independent Directors, however the Board believes that this is appropriate given the Company's current circumstances in relation to its financial position and difficulties experienced during the year in the development of the Cibaliung Gold Project

in Indonesia. The Board is currently comprised of the Non-Executive Chairman (Bruce Watson), the Managing Director (John Carlile) a Non-Executive Director who is associated with a substantial shareholder (George Tahija) and one independent Non-Executive Director (Robert Willcocks). The Chairman carried out some executive/management functions in 2007.

#### **RECOMMENDATION 2.2**

**The Chairperson should be an independent Director.**

The Chairman (Bruce Watson) of the Company, through an associated corporate entity, assumed some of the executive/management functions throughout 2007 and accordingly was not then regarded as independent for that period. The Chairman resumed a Non-Executive capacity early in 2008 and has always been independent of the Company's major shareholders.

#### **RECOMMENDATION 2.3**

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

These roles have been exercised by separate individuals since 14 January 2008.

#### **RECOMMENDATION 2.4**

**The Board should establish a Nomination Committee.**

The Board has not maintained a formally constituted Nomination Committee. Where a vacancy arises or it is considered appropriate to vary the composition of the Board of Directors, the full Board generally participates in any review of the Board's composition and the qualifications and experience of candidates. Directors are selected upon the basis of their specialist skills and business background so as to provide an appropriate mix of skills, perspective and business experience.

Directors are not appointed for a fixed term but are, excluding any Managing Director, subject to re-election by shareholders at least every three years in accordance with the Constitution of the Company.

The Directors' terms of appointment are governed by the Constitution of the Company. A Director appointed to fill a casual vacancy or as an addition to the Board, only holds office until the next general meeting of members and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director) must retire at each Annual General Meeting of members.

#### **RECOMMENDATION 2.5**

**Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

Following the recent sale of the Cibaliung Gold Project the Company's strategic focus has shifted to the acquisition, exploration and definition of resources in existing and new projects within the highly prospective Indonesian magmatic and outer arcs which are relatively underexplored and are highly prospective for precious and base metals. The Company's progress in this regard is hampered, amongst other things, by a severe lack of financial resources.

The Board of the Company works closely with senior management where appropriate so that the new strategic focus might be achieved as effectively as possible.

In this context, formal evaluation of the Board has not been undertaken during this period due to the extreme financial and operational pressures that the Company has endured.

The Board proposes to establish formal evaluation procedures once the Company's operations have stabilised and the Company's future is more certain.

#### **RECOMMENDATION 2.6**

**Companies should provide the information indicated in the Guide to reporting on Principal 2.**

The Company has provided this information.

#### **RECOMMENDATION 3.1**

**Companies should establish a code of conduct and disclose the code or a summary of the code as to:**

- **the practices necessary to maintain confidence in the Company's integrity;**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;**
- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The Company has established a Director's Code of Conduct. In addition the Company maintains a Code of Ethics which extends to govern the conduct of Directors and the Executive of the Group in both Australia and Indonesia. Given the extremely small number of senior executives and limited scale of operations these codes have not extended to deal with the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Director's Code of Conduct and the Company's Code on Ethics are reproduced on the Company's website.

#### **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 maintains a policy which requires that Directors, officers and employees of the Company not engage in any dealings in the shares of the Company without giving prior notice to the Company including details of the type and date of dealing, number of securities, parties and price.

In addition, Directors, officers and employees shall not engage in any dealings in shares of the Company during the period two weeks prior to and within 24 hours after the date of the announcement of the Company's annual or half year results or any quarterly activities report, or at any time while in the possession of inside information.

The policy is reproduced on the Company's website.

#### **RECOMMENDATION 3.3**

**Companies should provide the information indicated in the Guide to reporting on Principal 3.**

The Company has provided this information.

#### **RECOMMENDATION 4.1**

**The Board should establish an Audit Committee.**

The Board has established an Audit Committee which is responsible for ensuring compliance with all appropriate accounting standards and the integrity of related reporting obligations.

The Committee is also responsible for reviewing the Group's internal financial controls, and for maintaining open lines for communication between the Board and the external auditors, independently of management.

All Audit Committee deliberations are routinely reported to the full Board at the earliest opportunity and any action taken, or proposal made, is submitted to the full Board for ratification or approval and implementation.

#### **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;**
- **has at least three members.**

The Company has established an Audit Committee however the committee does not meet with the requirements of this recommendation due to the limited number of directors available to form this committee and the positions that each of the directors hold. The committee is comprised of two members being Bruce Watson (the Chairman) and Mr. Robert Willcocks (a Non-Executive Director). Given the size of the Company and the Board, the Audit Committee is made up of only two members, while other Directors and the Company's external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

#### **RECOMMENDATION 4.3**

**The Audit Committee should have a formal charter.**

The Company has a formal Audit Committee Charter which has been approved by the Board of Directors.

#### **RECOMMENDATION 4.4**

**Companies should provide the information indicated in the Guide to reporting on Principal 4.**

The Company has provided this information.

#### **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 executive level for that compliance and disclose those policies or a summary of those policies.**

Currently the Managing Director and the Company Secretary are charged with the responsibility to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Board has approved a Continuous Disclosure Policy which is reproduced on the Company's website.

#### **RECOMMENDATION 5.2**

**Companies should provide the information indicated in the Guide to reporting on Principal 5.**

The Company has provided this information.

#### **RECOMMENDATION 6.1**

**Companies should design a communications policy to promote effective communication with shareholders and encouraging effective participation at general meetings and disclose their policy or a summary of that policy.**

The Company has not established a formal policy for communicating with shareholders. Information is communicated to the members through compliance with ASX Listing Rules and the Corporations Act 2001, by way of announcements to the ASX, media releases, the Annual Report, Half-Yearly Report, the Annual General Meeting and other meetings that may be called from time to time. The Company maintains a website which provides a description of the Group's projects and all material announcements released to the ASX.

#### **RECOMMENDATION 6.2**

**Companies should provide the information indicated in the Guide to reporting on Principal 6.**

The Company has provided this information.

#### **RECOMMENDATION 7.1**

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

There are inherent risks associated with exploration and the development of resource projects and in particular in operating in overseas countries. The Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks. The Company has adopted a Risk Management Statement and a Financial and Commodity Risk Management Policy. The Risk Management Statement is reproduced on the Company's website.

The Board is provided with regular reporting on the management of operations and the financial condition of the Group aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

#### **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**

The Managing Director and Chief Financial Officer (Cahyono Halim) are both based in Jakarta and have commenced the process of enhancing the design and implementation of risk management and internal control systems to manage the company's material business risks. Management has confirmed to the Board that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

There are inherent risks associated with exploration and the development of resource projects and particularly in Indonesia where a new Mining Law has recently been introduced.

#### **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 required 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 issues.**

The Managing Director and the Chief Financial Officer commenced employment with the Company in January 2008. The Managing Director and Chief Financial Officer have provided section 295A statements to the Board and confirmed to the Board that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Chief Financial Officer has commenced the process of enhancing the design and implementation of risk management and internal control systems to enhance the Company's financial reporting processes.

**RECOMMENDATION 7.4**

**Companies should provide the information indicated in the Guide to reporting on Principal 7.**

The Company has provided this information.

**RECOMMENDATION 8.1**

**The Board should establish a Remuneration Committee.**

The Board has not maintained a formal Remuneration Committee due to the limited number of directors available and the positions that each of the directors hold. Remuneration matters are dealt with by the full Board of Directors. The full Board of Directors is responsible for establishing and reviewing the remuneration for the Managing Director.

**RECOMMENDATION 8.2**

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

The Board has previously set the remuneration of Non-Executive Directors which is within the aggregate amount approved for such remuneration by shareholders. All Non-Executive Directors are entitled to remuneration of \$30,000 each per annum (plus statutory superannuation where applicable) inclusive of Committee responsibilities. The Chairman receives remuneration of \$45,000 per annum (plus statutory superannuation). No retirement benefits are payable to Non-Executive Directors.

The Board has determined the level of remuneration for the Managing Director taking into account his experience, the nature of his responsibilities, the Group's objectives and market conditions.

The Group has employed a number of executives both in Australia and in Indonesia who are key to achieving the Company's objectives. The Board determines the remuneration policies applicable to the limited number of employees in Australia. The remuneration of employees in Indonesia is determined by the President Director of the Company's operating subsidiaries in conjunction with the Managing Director taking into account each employees experience, the nature of responsibilities, and both market and country conditions. Officers and employees in both Australia and Indonesia are entitled to participate in the Company's Employee and Contractor Options Plan.

**RECOMMENDATION 8.3**

**Companies should provide the information indicated in the Guide to reporting on Principal 8.**

The Company has provided this information.