

2007 Corporate Governance Statement

Introduction

This statement sets out the Company's commitment to business practices and corporate governance. It also describes the Company's approach to corporate governance and summarises the main policies and procedures that the Company has in place.

The Board is committed to consistently delivering strong financial performance and maximising long-term shareholder value. The Board believes the implementation of appropriate and relevant corporate governance practices may enhance the performance of the Company and the creation of shareholder value whilst also promoting market confidence and the confidence of the shareholders, investment community and other relevant stakeholders. This statement outlines the main corporate governance practices in place throughout the financial year, unless otherwise stated.

The Board actively monitors the Company's governance framework, related practices and overall culture. The Board implements governance policies it considers are appropriate to the operation of the Company, whilst also considering the expectations of shareholders, market guidance and the interests of other relevant stakeholders.

The ASX Corporate Governance Council has developed a set of guidelines entitled Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Recommendations") which may be considered by ASX-listed companies regarding their corporate governance framework and policies. The ASX Listing Rules require listed entities to include a statement in their annual report disclosing the extent to which they have followed the ASX Recommendations during the financial year, whilst also identifying recommendations that have not been followed and explaining the reasons for adopting a different approach.

The Board believes that the Company's governance practices are consistent with the ASX Recommendations, subject to any qualifications outlined.

Principle 1: Lay solid foundations for management and oversight

ASX recommends recognising and publishing the respective roles and responsibilities of Board and management. The Company addresses this recommendation as follows.

The Board's primary role is the protection and enhancement of long-term shareholder value. The key responsibilities of the Board are to:

- Establish, monitor and modify the corporate strategies of the Company;
- Ensure proper corporate governance; monitor the performance of management of the Company;
- Ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- Assess the necessary and desirable competencies of Board members, review Board succession plans, evaluate its own performance and consider the appointment and removal of Directors;
- Consider executive remuneration and incentive policies, the Company's recruitment, retention and termination policies and procedures for senior management and the remuneration framework for non-executive Directors;
- Monitor financial results;
- Approve decisions concerning the capital, including capital restructures, and dividend policy of the Company; and
- Comply with the reporting and other requirements of the law.`

The Board meets on a monthly basis.

Subject to certain conditions, the Board delegates responsibility for day-to-day management of the Company to the Managing Director/Chief Executive Officer, who provides a monthly report to the

Board. The Managing Director must consult the Board on matters that are sensitive, extraordinary, of a strategic nature or on other matters outside these conditions.

Principle 2: Structure the Board to add value

ASX recommends having a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. The Company addresses this recommendation as follows:

2.1 Board composition and independence

The Company's Constitution allows for a maximum of 6 Directors. The Board currently comprises six directors, five being non-executive directors (including the Chairman) plus the Managing Director/Chief Executive Officer. The Directors come from a variety of business and professional backgrounds and bring to the Board a range of skills and experience relevant to the Company. Details of the directors' experience, expertise and terms in office are set out in the Directors' Report under the heading "Information on Directors".

Of the five non-executive directors, three are independent and two are non-independent. Messrs JK Ludowici and HKR Rhodes-White are considered non-independent primarily because they are associates of major Ludowici shareholders. In assessing independence, the Board has adopted a definition consistent with the guidance provided in the ASX best practice recommendations.

The Board is of the opinion that its size and composition is effective for the adequate discharge of its responsibilities and duties.

The Board believes that the first priority in the selection of Directors is their ability to add value to the Board and enhance the Company's performance whilst safeguarding shareholders' interests. Accordingly, relevant expertise and competence is considered as important as technical independence.

The Board, sitting as the Nomination and Remuneration Committee is involved in Board succession planning and the selection on new Directors. The Company's Constitution requires Directors, with the exception of the Managing Director, to stand for re-election every three years. Retiring Directors are eligible for re-election. When a vacancy is filled by the Board during the year, the new Director must stand for election at the next general meeting.

Board operations

The Board meets regularly, usually monthly as well as to approve annual and half yearly reports. The Directors' attendance at those meetings is set out in the Directors' Report of the 2007 Annual Report under the heading "Directors' Meetings". The Directors receive a comprehensive Board pack before each meeting. Senior executives meet regularly and present to Board and committee meetings on particular issues.

The Board has established two committees, the Audit Committee and the Nomination and Remuneration Committee. Details of committee membership and attendance at those meetings are set out in the Directors' Report under the headings "Information on Directors" and "Directors' Meetings". All Directors have unrestricted access to company records, information and personnel and the Board has a policy of allowing the Board or individual directors to seek independent professional advice at the Company's expense, subject to the approval of cost by the Chairman. Such approval shall not be unreasonably withheld.

2.2 The role of Chairman

The Board believes that the role of Chairman should be filled by the person most suited to the role, with the most relevant skills and experience and who adds the greatest value to the Board and to the Company. The responsibilities of the Chairman include:

- Ensuring that the Board provides leadership and vision to the Company;
- Assessing and implementing a balanced board membership;

- Ensuring that the Board is participating in setting the aims strategies and policies of the Company;
- Ensuring that there is adequate monitoring, pursuit and performance of the goals of the Company;
- Ensuring that the Board reviews the human resources of the Company;
- Making certain that the Board has the necessary information to ensure effective decision making;
- Directing Board discussions so that there is an effective use of time and that critical issues are discussed;
- Developing an ongoing and healthy relationship with the Managing Director;
- Guiding the ongoing development of the Board as a whole and Directors individually; and
- Be available to offer guidance to other Directors where required.

The Chairman, Mr PJ Arnall is considered to be an independent Director in accordance with ASX recommendation 2.2.

2.3 The role of Chairman and Managing Director

The role of Chairman and Managing Director are exercised by different individuals, in accordance with ASX recommendation

2.4 Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee to ensure that the Board retains a sufficiently wide mix of expertise to fulfill its responsibilities. The Committee is responsible for devising criteria for Board membership for approval by the full Board, for identifying individuals for nomination and making recommendations to the Board for new Directors and membership of committees. All Directors are members of this Committee.

The responsibilities of the Committee are:

- Review from time to time the required range of skills and experience of the Board and identify suitable candidates for prospective new appointments;
- Review Directors' fees and recommend adjustments of the aggregate amount for consideration by the Shareholders;
- Review executive remuneration policy and ensure the mix of base salary, performance pay and other benefits is adequate to attract, retain and motivate talented people;
- Determine the remuneration of the Managing Director (the Managing Director does not participate in this function); and
- Approve the Managing Director's recommendations on senior executive remuneration.

Committee membership and meeting attendances are set out in the Directors' Report under the headings "Information on Directors" and "Directors' Meetings".

The Board has not established a separate Risk Management committee as recommended in the Guidelines because these matters are appropriately addressed by the full Board. However, the Board will monitor this position regularly.

Principle 3 Promote ethical and responsible decision-making

In Principle 3, ASX recommends actively promoting ethical and responsible decision-making. Ludowici address this recommendation as follows.

3.1 Company commitment to ethical business practices

While the Board has adopted the ASX principles of good corporate governance and implemented most of the ASX recommendations, it believes that these types of rules and regulations are of limited value unless supported by a foundation of honesty and integrity which has been a foundation of the Company's business practice.

A revised code of conduct is being developed and will be expanded to include "whistle blowing" and any other matters the Board considers appropriate. The revised code of conduct will be available to shareholders on request and will be available for inspection on the Company's website once finalised.

3.2 Share dealings by directors and officers

The Board has adopted a securities dealing policy that specifically precludes Directors and nominated employees (and their associates) from buying or selling shares except in the following circumstances:

- In the period of 30 business days commencing one day after the announcement of the Company's half yearly results to the ASX;
- The period commencing one day after the announcement of the Company's annual results to 31 December to the ASX, to 30 days after the Company's annual general meeting;
- At any time the company has a prospectus open; and
- At any other time the Board declares trading permissible in a written notice to all staff and the ASX;
- Specific clearance from the Chairman (for Directors) or Managing Director (for employees).

and except where the Director or employee is in possession of price sensitive information.

Details of Directors' individual shareholdings are set out in the Notes to Financial Statements of the 2007 Annual Report (Note 32 – "Key management personnel disclosures").

A copy of the securities dealing policy is available to shareholders on request and is available for inspection on the Company's website.

Principle 4 Safeguard integrity in financial reporting

In Principle 4, ASX recommends having a structure to independently verify and safeguard the integrity of the Company's financial reporting. The Company addresses this recommendation as follows:

4.1 True and fair view of accounts

The Board has policies designed to ensure that the Company's financial reports meet high standards of disclosure and provide the information necessary to understand the Company's financial performance and position.

The policies require that the Managing Director and the Chief Financial Officer provide to the Board prior to the Board approving the annual and half-year accounts, a written statement that the accounts present a true and fair view, in all material respects, of the Company's financial performance and position and are in accordance with relevant accounting standards, laws and regulations.

4.2 Audit Committee

The Audit Committee is responsible for reviewing the financial accounts and other financial information distributed externally, monitoring the adequacy of risk management and internal control systems and monitoring procedures in place to ensure compliance with statutory responsibilities.

4.3 Structure of Audit Committee

The committee consists of three directors, the majority of whom are non-executive and independent. The Chairman of the committee is an independent director who is not the Chairman of the Board. The Company Secretary and external auditors are invited to attend the committee meetings. Other staff including the Managing Director may be invited to committee meetings as deemed necessary by the committee.

4.4 Audit Committee Charter

The committee has a Board approved Charter setting out its role, responsibilities, structure and membership requirements.

In performing its responsibilities, the Committee shall, amongst other things:

- Where a vacancy arises, recommend to the Board the appointment of the external auditors;
- Review the terms of engagement of the external auditor and prepare a recommendation to the Board including recommendation on the level of the external auditor's annual fee;
- Review the adequacy of the Financial Reports presented to the Board;
- Review Board Policies in regards to financial matters;
- Monitor and evaluate to ensure the overall effectiveness of both the internal controls and external audit;
- Ensure that no management restrictions are being placed upon the external audit;
- Review all financial reports to be made to members and the public;
- Monitor the standard of corporate conduct in areas such as related-party dealings and any likely conflicts of interest;
- Require reports from management, and the external auditors on any significant proposed regulatory, accounting or reporting issue, to assess the potential impact upon the company;
- Review and recommend to the Board accounting policy changes;
- Identify and direct any special projects or investigations deemed necessary; and
- Review for completeness and accuracy the reporting of the entities main corporate governance practices as required by ASX.

A copy of the Audit Committee Charter is available on request and is also available for inspection on the Company's website.

Details of the amounts paid for both audit and non-audit services are set out in the Notes to Financial Statements of the 2007 Annual Report (Note 27 –“Auditors Remuneration”).

Principle 5 Make timely and balanced disclosure

In Principle 5, ASX recommends promoting timely and balanced disclosure of all material matters concerning the company. The Company addresses this recommendation as follows:

The Board recognises that the Company as a publicly listed entity has an obligation to make timely and balanced disclosure in accordance with the requirements of the Australian Stock Exchange (ASX) Listing Rules and the Corporations Act 2001. The Board also is of the view that an appropriately informed shareholder base, and market in general, is essential to an efficient market for the Company's securities.

The Board is committed to ensuring that shareholders and the market have timely and balanced disclosure of matters concerning the Company.

In order to ensure the Company meets its obligations of timely disclosure of such information, the Company has adopted the following policies:

- Immediate notification to ASX of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities as prescribed under Listing Rule 3.1, except where such information is not required to be disclosed in accordance with the exception provisions of the listing rules; and
- The Company has an established website and all information disclosed to ASX is promptly placed on the Company's website following receipt of confirmation from ASX and, if deemed desirable, released to the wider media.

Principle 6 Respect the rights of shareholders

In Principle 6, ASX recommends respecting the rights of shareholders and facilitating the effective exercise of those rights. Ludowici address this recommendation as follows.

6.1 Communications with shareholders

The Board recognises that the shareholders are the beneficial owners of the Company and respects their rights and is continually seeking ways to assist shareholders in the exercise of those rights.

The Board also recognises that as owners of the Company, the shareholders may best contribute to the Company's growth, value and prosperity if they are informed. To this end, the Board seeks to empower shareholders by:

- Communicating effectively with shareholders;
- Enabling shareholders access to balanced and understandable information about the Company, its operations and proposals; and
- Assisting shareholders' participation in general meetings.

The Company provides a website (www.ludowici.com.au) in order to provide opportunities for shareholders to access Company announcements, media releases and financial reports through electronic means.

6.2 External auditor at annual general meeting

The Company's financial accounts are subject to an annual audit by an independent, professional auditor, who also reviews the half-year accounts.

The Board requests the external auditor to attend the annual general meeting each year and to be available to answer shareholder questions regarding the conduct of the audit and the preparation and content of the Auditor's report.

The Board ensures that shareholders are made aware that the external auditor is present and available for questions at the annual general meeting.

Principle 7 Recognise and manage risk

In Principle 7, ASX recommends establishing a sound system of risk oversight and management and internal control. The Company addresses this recommendation as follows.

7.1 Board to establish policies on risk oversight and risk management

The Company has in place informal policies and procedures for risk management and is currently documenting a formal risk management policy which it expects to adopt shortly. Once adopted, the policy will be available to shareholders on request and will be available for inspection on the Company's website.

7.2 The Managing Director and Chief Financial Officer to state the annual report complies with Board-established policies.

The Managing Director is charged with implementing appropriate risk systems within the Company and includes in his report to the Board details of any issues or concerns.

Principle 8 Encourage enhanced performance

In Principle 8, ASX recommends fairly reviewing and actively encouraging enhanced Board and management effectiveness. The Company addresses this recommendation as follows:

- Annual review by the Board of its own performance;
- Regular reviews of its governance structures, including Board committees, to assess their effectiveness and efficiency.

Principle 9 Remunerate fairly and responsibly

In Principle 9, ASX recommends ensuring that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. The Company addresses these recommendations as follows.

Remuneration Policy

The Board believes that it is in the interest of all stakeholders in the Company for there to be in place a remuneration policy that:

- Attracts and retains talented and motivated Directors, executives and employees so as to encourage enhanced performance of the Company;
- Recognises and rewards superior performance by any individual or Company to which the individual has made a significant contribution;
- Payment of equity-based executive remuneration should only be made in accordance with such schemes that have been approved by shareholders;
- Enables the Company's stakeholders and the investment community to understand:
 - (i) The costs and benefits of that policy; and
 - (ii) The link between remuneration paid to Directors and key executives and the Company's performance.
- Distinguishes the structure of non-executive Directors' remuneration from that of executives using the following guidelines.

For non-executive Directors' remuneration:

- (i) Non-executive Directors should not be provided with retirement benefits other than statutory superannuation; and
- (ii) Non-executive Directors ought to receive equity-based remuneration only under strict controls and subject to shareholder approval.

To this end, the Board has established a process of transparency in remuneration matters that relates remuneration to performance and clearly communicates the policy underlying executive remuneration to stakeholders.

Remuneration Objectives

The Board's remuneration objectives are as follows:

- To motivate Directors and management to pursue the long-term growth and success of the Company within an appropriate control framework; and
- To demonstrate a clear relationship between executive performance and remuneration.

Structure

The Board has determined that executive remuneration may comprise any of the following:

- Cash salary;
- Shares in the Company and/or options to acquire shares in the Company;
- Other incentive schemes;
- Allowances;
- Holiday and sick leave;
- Long service leave (Australian employees);
- Medical and dental cover (US employees);
- Superannuation (Australian employees);
- Any other component that the Company can lawfully provide to an officer to salary sacrifice;
- Any other component that the Board considers relevant and desirable; and
- Fringe benefits tax (howsoever called) associated with components of remuneration requested by the Officer to be salary sacrificed.

The remuneration, and its elements, paid to Directors, and Key Management Personnel is set out in the Directors' Report of the Financial Report.

Indemnity and insurance of Directors

In accordance with the Company's Constitution and to the extent permitted by law, the Company indemnifies every person who is, or has been, a Director or secretary and may agree to indemnify a person who is or has been an officer of a group company against a liability incurred by that person in his or her capacity as such a Director, secretary or officer, to another person (other than the company or a related body corporate of the company) provided that the liability does not arise out of conduct involving a lack of good faith. In addition, the Company has directors and officers insurance against claims and expenses that the Company may be liable to pay under these indemnities.

Principle 10 Recognise the legitimate interests of stakeholders

In Principle 10, ASX recommends recognising legal and other obligations to all legitimate stakeholders. The Company address this recommendation as follows.

The Board recognises the interests of stakeholders other than shareholders of the Company. The Company has a number of legal and other obligations to stakeholders such as employees, customers, suppliers and the community as a whole. It is the Board's view that the Company can achieve the best outcomes by better managing its natural, human, social and other forms of capital.

Accordingly, the Board has adopted a code of conduct in respect of dealings with these stakeholders to guide Directors, executives and all staff in matters such as:

- Shareholder, customer and community relations;
- Fair trading and dealing with the Company;
- Employment practices; and
- Compliance, compliance monitoring and adherence to this code.