

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

Corporate Governance Statement

The Board of directors of Alesco is responsible for the corporate governance of the Company and its controlled entities (the **Alesco Group**) and to ensure that the Alesco Group is directed and managed appropriately. In this regard, the Board is committed to ensuring accountability and that control systems are commensurate with the risks involved to enable Alesco to create value and optimise its performance.

The Board has chosen to early adopt the revised Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council. This statement summarises the corporate governance practices and policies in place at Alesco during the financial year ended 31 May 2008 in relation to the revised eight ASX Principles. For ease of reference, this statement has been prepared and presented in a format consistent with the ASX publication.

The Board recognises that in a changing world these practices and policies should be reviewed from time to time to ensure they continue to reflect local and international developments and to assist Alesco in optimising its corporate performance and accountability.

In summary, there have been no substantial changes to Alesco's corporate governance practices and policies during the reporting period. Alesco departs from the ASX Principles in one key area in that it has not established a separate Nominations Committee, opting for more flexible arrangements and in preference for a Safety, Health & Environment Committee, the membership of which is discussed below. Following the appointment of Mark Luby as a non-executive director in December 2007, the Board took the opportunity to restructure the Board Committees to help distribute the workload and to refresh the Committees generally. Details on the Committees membership are set out in Table 2 on page 23.

Key summaries of the corporate governance practices and policies and other key documents can be found on Alesco's website at www.alesco.com.au.

ASX Principle 1 – Lay solid foundations for management and oversight

Role of the Board

The Board has formalised its role and its relationship with management into a Board charter. The primary role of the Board is the protection and enhancement of long-term shareholder value. Its responsibilities include the overall strategic direction of Alesco, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1. A summary of the matters reserved for the Board can be found in the corporate governance section of the Alesco website.

The Board has delegated certain responsibilities to senior executives including the day-to-day operation and administration of the Company.

The Company has in place an induction program for its directors and senior executives to assist them to understand the Company's financial position, strategies, operations and policies and their respective rights, duties and responsibilities. A performance evaluation process for senior executives took place during the year assessing the key executives against corporate, divisional and individual goals.

ASX Principle 2 – Structure the Board to add value

Board structure

The Board presently has nine directors but through the reporting period had eight directors, six non-executive directors, including the Chairman and two executive directors, the Managing Director and Finance Director. Two new non-executive directors were appointed since the last report: Mark Luby who was appointed on 18 December 2007 and Robert McKinnon who was appointed more recently on 1 July 2008. Barry Jackson, who has been on the Board for the past seven years, will retire at the 2008 Annual General Meeting in September and is not seeking re-election.

Each director brings a diverse range of skills and background to the Board. The skills, experience and expertise of the directors are set out in more detail at pages 18 and 19 in the Annual Report. Other relevant details of the directors are set out in Table 2 on page 23.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

Corporate Governance Statement (continued)

ASX Principle 2 – Structure the Board to add value (continued)

Board structure (continued)

Table 2

NAME	DATE OF APPOINTMENT	COMMITTEE MEMBERSHIP ¹	TERM IN OFFICE	RETIRING AT 2008 AGM	NEXT DATE FOR RETIREMENT	INDEPENDENT
SP Wareing (Chairman)	1 Sep 2000	Human Resources	8 years	No	2009	Yes
RM Aitken	10 Mar 2003	Human Resources and Safety, Health & Environment	5 years	No	2009	Yes
JW Hall	1 Jul 2005	Audit & Compliance	3 years	No	2010	Yes
BJ Jackson	28 Nov 2001	Audit & Compliance	7 years	Yes	2008	Yes
MB Luby	18 Dec 2007	Audit & Compliance, and Safety, Health & Environment	1 year	Yes	2008	Yes
RV McKinnon ²	1 July 2008	Audit & Compliance	0 years	Yes	2008	Yes
EJ Pope	1 Dec 2004	Human Resources and Safety, Health & Environment	4 years	No	2010	Yes
JJ Ryan (CEO)	1 Oct 2005	n/a	3 years	n/a	n/a	No ³
NA Thompson	31 Jan 2007	n/a	2 years	No	2010	No ³

¹ The committee membership was restructured effective from 1 February 2008.

² RV McKinnon joined the Board on 1 July 2008 and was appointed to the Audit & Compliance Committee on 28 July 2008.

³ By virtue of being an executive officer.

The composition of the Board is determined using the following principles:

- there should be at least five directors, with a broad range of expertise;
- the Chairman is to be an independent non-executive director;
- there must be a majority of non-executive directors, with at least half being independent non-executive directors;
- there must be enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities;
- at a minimum, directors (other than the Managing Director) must face re-election every three years;
- the roles of Chairman and Chief Executive Officer should not be exercised by the same individual. In addition, a former Chief Executive Officer should not be appointed Chairman; and
- the size and composition should be conducive to allowing the Board to make appropriate decisions and that decision-making is not hindered.

To assist in its duties the Board has established three Committees: Audit & Compliance Committee, Human Resources Committee and the Safety Health

& Environment Committee. As noted earlier, the membership of these Committees changed in February 2008 to ensure that the workload for each director was balanced in order for the directors to fully discharge their responsibilities. Membership of these Committees is noted in Table 2.

Director independence

The Board supports the principle that a majority of the Board of Alesco should be independent and that each director should bring an independent judgment to bear in decision making.

In judging whether a director is independent for the purposes of serving on the Board of Alesco and any Board Committees, the Board has regard to the principle outlined in ASX Principle 2. In summary, an independent director is independent of management and free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment. Alesco has adopted AASB standard 1031 *Materiality* to determine levels of materiality when assessing independence.

The directors considered by the Board to be independent are identified in Table 2.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

Corporate Governance Statement (continued)

ASX Principle 2 – Structure the Board to add value (continued)

Conflicts of interest

To enable the Board to assess the independence of each director, each director is required to provide all relevant information to Alesco on a regular basis. Details of director related entity transactions with the consolidated entity are set out in Note 32 of the Annual Report. There are no director related party transactions in place in relation to Alesco and its directors at the present time.

Each director is required to act in the interests of Alesco as a whole and, at no time, allow any of the director's own interests to prevail over those of the members generally. If a conflict does arise, the director must declare his interest and consider whether to simply refrain from participating in the matter, absent himself from the meeting or resign from the Board.

Nomination and appointment of new directors

The Board has elected not to establish a formal Nominations Committee to oversee the appointment and induction process for directors in preference for more flexible arrangements as deemed appropriate in the circumstances. When the need arises to seek nominees or make changes to the Board composition, an ad-hoc committee is formed, comprising the Chairman, together with other Board members as deemed appropriate, to manage this process.

From time to time, the Board assesses the skill, knowledge, diversity and experience currently represented on the Board and will determine areas, if any, not adequately represented. Potential candidates identified are put forward to the Board for consideration. It is the Board's normal practice to involve external consultants to assist in the nomination process. The Board is responsible for the appointment of a suitable candidate as recommended by the Committee.

This year two new non-executive directors were appointed to the Board. Mark Luby was appointed on 18 December 2007 and Robert McKinnon on 1 July 2008 through an externally facilitated process.

The appointments were made having regard to the existing competencies and skills of existing Board members. Newly appointed directors or directors standing for re-election are expected to acknowledge to the Board that they have sufficient time to meet the Company's expectations of them. Both new directors face election at this year's annual general meeting in accordance with the Company's Constitution having been appointed by the Board since the last annual general meeting and both have confirmed that they are able to meet the Company's expectations and workload associated with being a non-executive director.

Meetings of directors

The Board meets on a regular scheduled basis and on other occasions as required. Meetings are held at a number of locations to allow visits to the various operational sites and for other purposes. Meetings may be held in absence of senior management as deemed necessary and appropriate and, for these purposes, non-executive directors will meet prior to the Board meeting without the presence of executive directors and other senior management.

To assist it in its decision making, the Board or individual directors may seek independent professional advice at the expense of Alesco, subject to prior consultation with the Chairman.

Retirement and election of directors

The Constitution requires each director (other than the Managing Director) to retire at the third annual general meeting after their appointment or after three years, whichever is longer. Retiring directors are eligible for re-election (subject to their term of service). In addition, any new director appointed by the Board faces re-election. As noted earlier, Mr Luby and Mr McKinnon both face election at the 2008 annual general meeting having been appointed by the Board since the last annual general meeting. Mr Jackson who has served on the Board since 2001 will retire at the 2008 annual general meeting and has indicated that he will not be seeking re-election.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

Corporate Governance Statement (continued)

ASX Principle 2 – Structure the Board to add value (continued)

Retirement and election of directors (continued)

In order to ensure a periodical refreshing of membership and to avoid the potential for loss of objectivity over time, non-executive directors are expected to serve approximately three terms, which would ordinarily amount to a period of nine years. Thereafter, non-executive directors would be expected to retire at the next appropriate general meeting and to not seek re-election unless requested by the Board to do so.

Induction procedures including site visits and meetings with management are in place to allow Board appointees to participate fully and actively in Board decision making at the earliest opportunity. Mr Luby participated in an extensive induction program in his first three months as a director which involved a number of site visits as well as meeting with the divisional management teams and Alesco's management team. Mr McKinnon will participate in a similar induction program over the coming months.

All directors have access to the resources of the company secretary. The Board is consulted regarding the appointment and removal of the company secretary.

ASX Principle 3 - Promote ethical and responsible decision-making

In line with ASX Principle 3, the Board has established, among others, a Code of Conduct, Share Trading Policy and Whistleblowing Policy.

Code of Conduct

The purpose of the Code of Conduct is to guide all employees and directors as to:

- the practices necessary to maintain confidence in Alesco's honesty and integrity; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The overriding principle is that all business affairs of Alesco must be conducted legally, ethically and with strict observance of the highest standards of propriety and business ethics. If there are any doubts as to how to respond to a particular circumstance, directors and employees are encouraged to consult with the Chairman or Company Secretary and, if necessary, seek external professional advice. A copy of the Code of Conduct is posted on the Alesco website.

The Company has also established a whistleblowing program for all of its employees. This program enables employees to report in good faith a breach or suspected breach of the law or Company policy, including the Code of Conduct or a work-related event which involves questionable, dishonest or fraudulent activity.

Share trading policy

A share trading policy has been adopted and is binding on all directors, officers and employees of Alesco. This policy imposes trading restrictions on all directors, officers and employees of Alesco in possession of 'inside information'. Additional trading restrictions are imposed on designated officers, including directors, senior executives in each division and employees based in corporate head office for the period from 90 days prior to the release of Alesco's full-year and half-year results until two days after the results have been released to the market. In addition, in order to trade, directors and other designated officers must seek the approval from the Chairman of the Board or the Chief Executive Officer prior to any dealing and must confirm in writing that they do not hold any inside information. Any approvals to trade are for a period of up to 10 business days and will lapse immediately if the designated officer comes in possession of inside information. Designated officers are prohibited from entering into transactions which may operate to limit the economic risks of invested entitlements under any of the Company's long-term incentive plans. A copy of the Share Trading Policy is posted on the Alesco website.

Directors are required to comply with the requirements of the ASX Listing Rules and their letter of appointment and promptly advise Alesco of any dealing in Alesco shares to allow Alesco to make the necessary disclosures to the ASX.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

Corporate Governance Statement (continued)

ASX Principle 4 - Safeguard integrity in financial reporting

ASX Principle 4 requires Alesco to "have a structure to independently verify and safeguard the integrity of the Company's financial reporting". The Board believes its practices are in accordance with this principle.

Each division within Alesco reports monthly to the Board on its financial performance and other key business-related matters. Consistent with ASX Principle 4, each half-year following extensive consultation with the divisional management teams, the Chief Executive Officer and Chief Financial Officer provide written assurance to the Board as to the veracity of the financial conditions and operational results of the Alesco group and that they are in accordance with relevant accounting standards.

Audit and compliance committee

To assist in the execution of its responsibilities, the Board has established an Audit & Compliance Committee. The structure of the Audit & Compliance Committee and its responsibilities reflect the requirements of ASX Principle 4. A summary of the Charter setting out the Committee's responsibilities is posted on the Alesco website. Membership of this Committee was revamped in February 2008 and the new membership is noted in Table 2. Mr Hall assumed the role of Chairman of this Committee effective from 23 September 2005. The qualifications of each director who is a member of this Committee are set out on pages 18 and 19 of the Annual Report. Details of the attendance at meetings can be found in Table 1. Directors of the Board who are not members of the Committee are entitled to attend Committee meetings. Alesco's auditors (internal and external), members of the senior executive team and other third parties are invited to attend Audit & Compliance Committee meetings at the discretion and invitation of the Committee. The Committee may meet with the auditors (both internal and external) without management's presence when required or thought appropriate. The Committee also has the right of access to management to seek explanations and additional information as considered necessary to discharge its duties.

During the year the Audit & Compliance Committee met on five occasions. Two of the meetings were held to coincide with the review of the half year and full year results. The other meetings focussed, among other things, on internal audit, insurance, compliance and risk affecting the consolidated group.

Auditor and independence

As part of its responsibilities, the Committee recommends to the Board and shareholders the appointment of an external auditor, approves audit fees and ensures the independence of the external auditor. In performing this responsibility, the Committee regularly assesses any non-audit services being performed by the auditors to ensure that the services are not of a kind that might impair the impartial judgment of the external auditor and that circumstances do not arise of actual or perceived loss of objectivity or independence. The Board, on the recommendation of the Committee, is satisfied that Alesco's external auditor is independent.

Management is required to seek the prior consent of the Committee if it wishes to use the external auditor for material projects in non-audit areas (other than taxation compliance services and due diligence transactional services). During the year, Alesco used other service providers for these non-audit services. To ensure independence of the external auditor, it is a requirement of Alesco that the external auditor makes an independence declaration each half year and ensures that the signing partner on the audit does not perform this role for more than five full-year audits. This year is the second year the signing partner has worked on Alesco's audit.

ASX Principle 5 - Make timely and balanced disclosure

Consistent with ASX Principle 5, the Board aims to ensure that all investors have equal and timely access to material information concerning the Company, that there is compliance with continuous disclosure requirements and that announcements made by the Company are factual and presented in a clear and balanced way.

The Company has adopted a Market Disclosure Policy reflecting the principles set out in ASX Principle 5. This policy has been placed on the Alesco website.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

Corporate Governance Statement (continued)

ASX Principle 6 - Respect the rights of shareholders

Alesco has adopted a number of different practices designed to promote effective communication with shareholders as recommended by ASX Principle 6. These practices include placing on the Alesco website relevant information, including ASX announcements, annual and half-year reports, copies of notices of meetings, analyst briefings and presentations given by the Chairman or Chief Executive Officer. Currently, annual and half-year reports are distributed to those shareholders who have specifically requested to receive these documents. Otherwise, these documents are placed on the Alesco website for access. Alesco also uses audio recordings to give stakeholders access to any material presentations such as general meetings and key analyst briefings and last year Alesco commenced providing webcasting facilities for its general meetings. These recordings are also made available through our website for a period of time. For those shareholders who have so elected, emails are used to update shareholders on key announcements.

A representative from the auditors of Alesco attends the annual general meeting and any other meeting as required by the Board and is available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report. Consistent with our usual practice, the auditor attended last year's AGM and has been asked to attend this year's Annual General Meeting in September 2008.

ASX Principle 7 - Recognise and manage risk

ASX Principle 7 recommends that a company "establish a sound system of risk and oversight and management and internal control."

In addition to its financial reporting obligations, the Audit & Compliance Committee is responsible for reviewing the risk management framework and policies of Alesco. The structure of the Audit & Compliance Committee and its responsibilities reflect the requirements of ASX Principle 7.

In performing this function, the Committee receives periodic reports from its internal auditors, senior management and, in some instances, external consultants detailing compliance with statutory requirements and the adequacy of the risk management programs and systems in place. In addition, the Committee reviews the adequacy of the group's insurance program. In line with ASX Principle 7, Alesco has adopted the policy requiring the Chief Executive Officer and Finance Director to

confirm in writing that, to the best of their knowledge, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects. This is done in consultation with the divisional management teams as appropriate.

Internal audit

Alesco has an established internal audit function, which was expanded this year to two full-time personnel in order to reflect the larger size and greater complexity of the Group's business. The internal audit function has direct access to the Chairman of the Audit and Compliance Committee. This Committee oversees the scope of the internal audit function and has access to the internal auditors without the presence of management. The scope of the internal audit function includes examining and evaluating the Group's internal control systems, compliance systems, financial reporting processes and the quality of performance in carrying out assigned responsibilities.

ASX Principle 8 - Remunerate fairly and responsibly

Alesco has in place systems designed to fairly review and actively encourage enhanced board and management effectiveness. The Chairman has the responsibility to review continually the performance of each director and the Board as a whole. The performance of the Board is reviewed regularly against both measurable and qualitative indicators. The Chairman may hold discussions individually with directors to facilitate peer review. From time to time and, as considered appropriate, the Chairman will seek external assistance and advice to undertake these performance reviews. The Board last conducted a performance evaluation on the Board and its members in the financial year ended 31 May 2006. This review was conducted through an external consultant with the performance of the Board benchmarked against the ASX Corporate Governance Guidelines. No internal deficiencies or material issues were identified through this process although some areas that were identified for further improvement or enhancement have now been addressed. An external review is scheduled to occur during the 2009 financial year.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MAY 2008

Corporate Governance Statement (continued)

ASX Principle 8 - Remunerate fairly and responsibly (continued)

The Board has in place a Human Resources Committee to assist the Board in relation to human resources issues affecting the Alesco Group. The structure of this Committee and its responsibilities reflect the requirements of ASX Principle 8. Membership of this Committee is noted in Table 2.

All three members of the Committee are independent directors. Details of the attendance at meetings can be found in Table 1. Directors of the Board who are not members of the Committee are entitled to attend Committee meetings. In addition, the Chief Executive and other senior executives, as appropriate, are invited to the meetings at the discretion of the Committee. The Committee also has the right of access to management to seek explanations and additional information as considered necessary to discharge its duties.

The charter setting out the responsibilities of the Committee has been adopted and a summary of this charter is posted on the Alesco website.

This Committee is responsible for ensuring that the recruitment and remuneration policies and practices of Alesco are consistent with its strategic goals and human resources objectives and are designed to enhance corporate and individual performance as well as meet the appropriate recruitment and succession planning needs.

To do this the Committee, among other things, is responsible for reviewing and monitoring executive performance, remuneration and incentive policies and the manner in which they should operate, the introduction and operation of share plans, executive succession planning and development programs to ensure that they are appropriate to the Group's needs and the remuneration framework for directors (as approved by shareholders). The Committee may consult with remuneration advisers to Alesco to assist in its role.

Details of the directors' and key senior executives' remuneration are set out in the Remuneration Report at page 36 and a further discussion on the Company's remuneration framework is set out in the Remuneration Report at page 31.

Principal Activities

The principal activities of the Group during the course of the financial year were the marketing and distribution of leading industrial brands to the building and renovations, scientific and medical, construction and mining and water management sectors.

Other than the acquisition of the Water Products & Services division, there was no significant change in the nature of the activities of the Group during the year.

Operating and Financial Review and Likely Developments

The consolidated income statement shows a consolidated net profit attributable to members of \$57,971,000 compared with \$43,974,000 in 2007.

The Chairman's Report and the Chief Executive Officer's Report review the operations of the Group and give an indication of likely developments and the expected results of the operations.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Events Subsequent to Balance Date

On 2 June 2008, the consolidated entity acquired certain business assets from Datataker Pty Limited for a purchase price of \$2,369,000. This business manufactures and supplies data logging, recording and data acquisition systems and is a bolt-on acquisition for the Scientific & Medical segment.

On 2 June 2008, the consolidated entity acquired certain business assets from Brandos Industrial Supplies Pty Limited for a purchase price of \$2,500,000. This business is involved in processing and distribution of industrial tapes and is a bolt-on acquisition for the Functional & Decorative Products segment.