

# China Magnesium Corporation Limited and its subsidiaries

## Corporate Governance Statement – 30 June 2015

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### Corporate Governance Statement

The Board are committed to achieving and demonstrating the highest standards of corporate governance and continue to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The ASX Corporate Governance Council Recommendations (“Recommendations”) that have been adopted by the Company are outlined below. Where an alternative approach has been adopted, this is outlined within the relevant section. All these practices unless otherwise stated were in place for the entire year. Instances where the Company has not adopted Recommendations are set out on the final page of this Corporate Governance Statement.

A copy is also available from the corporate governance information section of the Company website at [www.chinamagnesiumcorporation.com](http://www.chinamagnesiumcorporation.com)

#### **Principle 1: Lay solid foundations for management and oversight**

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term, and continually seek to balance competing objectives in the best interests of the Group as a whole.

Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

The full Board meets at least eight times a year, with other meetings as required to address any specific significant matters that may arise.

#### **Responsibilities**

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of, and approving, the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the Company's Code of Conduct
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director, Executive Directors and Non-Executive Directors, ensuring that appropriate checks are undertaken before appointment and/or recommendation to shareholders for election;

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### Principle 1: Lay solid foundations for management and oversight (continued)

- ratifying the appointment and/or removal, and contributing to the performance assessment for the members of the senior management team including the Chief Operating Officer, Chief Financial Officer and Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders

### Principle 2: Structure the Board to add value

The Board operates in accordance with the broad principles set out in its charter. The charter details the Board's composition and responsibilities.

The board's objective is to have an appropriate mix of expertise and experience on the board so that the directors can effectively discharge their corporate governance and oversight responsibilities. Below is a summary of the current board skills matrix:

Skill & Expertise	W Bass	T Blackhurst	XP Liang	P Robertson
Finance & Accounting	✓			
Legal	✓	✓		
Engineering			✓	✓
Marketing		✓		
Metallurgy				✓
Trade & negotiation - China		✓	✓	
Mergers & Acquisitions	✓	✓	✓	

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report is included in the Director's Report.

The company also has a Director's Code of Conduct which can be viewed at [www.chinamagnesiumcorporation.com/investor-centre/corporate-governance](http://www.chinamagnesiumcorporation.com/investor-centre/corporate-governance) which sets out standards to which each director will adhere whilst conducting his duties. The code requires a director, amongst other things, to:

- Act honestly, in good faith and in the best interests of the company as a whole;
- Perform the functions of office and exercise the powers attached to that office with a degree of care and diligence that a reasonable person would exercise if he were a director in the same circumstances; and
- Consider matters before the board having regard to any possible personal interests, the amount of information appropriate to properly consider the subject matter and what is in the best interests of the company.

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### **Principle 2: Structure the board to add value (continued)**

The term in office held by each director in office at the date of this report is as follows:

<b>Name</b>	<b>Term in office</b>
William Bass	5 years and 6 months
Tom Blackhurst	8 years and 3 months
Xinping Liang	8 years and 3 months
Peter Robertson	10 years and 1 month

### **Board composition**

The Board has not been comprised of a majority of independent non-executive directors since the resignation of Mr Michael Clarey on 7 October 2011.

- The Chair is an independent non-executive director. In recognition of the importance of independent views and the Board's role in supervising the activities of management, all directors are required to exercise independent judgement and review and constructively challenge the performance of management.
- The Chair is elected by the full Board and meets regularly with the Managing Director.
- The Company maintains a mix of directors on the Board from different backgrounds with complementary skills and experience.
- The Board undertakes an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group. This review process was conducted in June 2015.

The Board seeks to ensure that the size of the Board is conducive to effective discussion and efficient decision making.

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election, at the next AGM.

### **Directors' independence**

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer

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### Principle 2: Structure the board to add value (continued)

- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. A transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

In the context of director independence, "materiality" is considered from both the company and the individual director perspective. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the Corporate Governance Council Recommendation 2.4's definition of independence above, and the materiality thresholds set, the following directors are considered to be independent at the date of this report:

<b>Name</b>	<b>Position</b>
William Bass	Non-Executive Chairman
Peter Robertson	Non-Executive Director

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following directors are not considered to be independent:

<b>Name</b>	<b>Position</b>
Tom Blackhurst	Managing Director
Xinping Liang	Chief Operating Officer

Mr Blackhurst and Mr Liang are substantial shareholders and employed by the company in an executive capacity.

The company considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its board members. The directors noted above have been appointed to the board for these reasons.

There are procedures in place, agreed by the board, to enable directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

Therefore, according to the Council's definition of independence above, at the date of this report, the majority of the board were considered not independent.

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### **Principle 2: Structure the board to add value (continued)**

Wherever there is an actual or potential conflict of interest or material personal interest, the board's policies and procedures ensure that the directors:

- Fully and frankly inform the board about the circumstances giving rise to the conflict; and
- Abstain from voting on any motion relating to the matter and absenting himself or herself from board deliberations relating to the matter including receipt of board papers bearing on the matter.

If the board resolves to permit a director to have any involvement in a matter involving possible circumstances of conflicting interests, the board will minute full details of the basis of the determination and the nature of the conflict including a formal resolution concerning the matter.

If a director believes that he may have a conflict of interest or duty in relation to a particular matter, the director should immediately consult with the chairman. The Company Secretary will maintain a register of all possible conflict of interest situations.

#### ***Non-executive directors***

The non-executive directors meet as required without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the full Board.

#### ***Chair and Managing Director***

The Chair is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The Managing Director is responsible for implementing Group strategies and policies. The Board charter specifies that these are separate roles to be undertaken by separate people.

#### ***Commitment***

Non-executive directors are expected to spend an appropriate portion of time per year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June, and the number of meetings attended by each director is disclosed in the Directors' Report.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior advice to the Board. At the date of the annual report no executive director has accepted an appointment outside the Company.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

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### **Principle 2: Structure the board to add value (continued)**

#### ***Conflict of interests***

No entities connected with directors had business dealings with the consolidated entity during the year.

#### ***Independent professional advice***

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chair is required, but this will not be unreasonably withheld.

#### ***Board committees***

The Board has established two committees, being the Audit Committee and the Remuneration and Nominations Committee.

The Board may form additional committees in future such as to deal with e.g. Risk in the future. Such function is currently discharged by the full Board.

The committee structure and membership is reviewed on an annual basis. The recommendation that the Audit Committee consist of only non-executive directors has not been adopted as all directors are members of the Audit Committee.

The Audit Committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. This charter is reviewed on an annual basis.

The Remuneration and Nominations Committee comprises of a majority of non-executive directors. It has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. This charter is reviewed on an annual basis.

### **Principle 3: Promote ethical and responsible decision making**

The Company has established a Code of Conduct that sets out standards which the Board, management and employees of the Company are encouraged to comply with when dealing with each other, shareholders and the broader community.

The Company requires that all directors, managers and employees perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Code of Conduct gives guidance to the directors and other key executives about:

- the practices necessary to maintain confidence in the integrity of the Company; and
- the right of employees to alert management and the Board in good faith to potential misconduct without fear of retribution, and, where necessary, recording and investigation of such alerts.

The Company has a formal procedure in place to deal with the disposal or acquisition of the Company's securities. In addition, there are specific periods that trading in the Company's securities are prohibited by Director's and staff.

The Company holds regular meetings with land-owners and local communities in which it operates to ensure that effective communication provided on the Company's activities and that any relevant issues are dealt with.

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### **Principle 3: Promote ethical and responsible decision making (continued)**

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's international success is the result of the quality and skills of our people, who are primarily resident in northern China. Our practice is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.

Accordingly, the Board has not adopted a formal diversity policy which includes requirements to establish measurable objectives for achieving gender diversity. At 30 June 2015, the Group employed 348 people including 44 women and there were no women senior executives or women on the Board.

### **Principle 4: Safeguard integrity in financial reporting**

The Managing Director, Comptroller and Financial Controller are required to make the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

### ***Audit Committee***

The Audit Committee currently consists of the full Board, being two independent non-executive directors and two executive directors.

The Audit Committee members have appropriate financial expertise. All members are financially literate, with Mr. Bass being a Chartered Accountant, and have an appropriate understanding of the industries in which the Group operates. During the 2015 financial year the Company did not comply with the structure set out in Recommendation 4.2 as the Audit Committee did not consist of only non-executive directors.

The Audit Committee operates in accordance with a charter that states the main responsibilities of the Committee are to:

- review, assess and approve the annual report, the half year financial report and all other financial information published by the Company or released to the market;
- assist the Board in reviewing the effectiveness of its internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations;
- determine the scope of potential internal audit requirements;
- oversee the effective operation of the risk management framework;

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### **Principle 4: Safeguard integrity in financial reporting (continued)**

- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee:

- receives regular reports from management and external auditors;
- meets with external auditors at least two times a year, or more frequently if necessary;
- reviews the processes the Managing Director, Comptroller and Financial Controller have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence.

The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

BDO Audit Pty Ltd ("BDO") was appointed as the external auditor for the financial year 2010 onwards. It is BDO's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in the Notes to the Financial Statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

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### **Principles 5: Make timely and balanced disclosure**

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company has established policies and procedures designed to ensure compliance with the ASX Listing Rule requirements such that:

- all investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

The Company has established policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Board authorises all disclosures necessary to ensure compliance with ASX Listing Rule disclosure requirements.

### **Principle 6: Respect the rights of shareholders**

The Board encourages shareholder communication and through the activities of its executives, ensures that shareholders are kept up to date with the Company's activities.

The Company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings.

All information disclosed to the ASX is posted on the Company's website as soon as reasonably practicable after it is disclosed to the ASX. When presentations on aspects of the Group's operations are made, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

A copy of the Company's Annual Report is issued to shareholders who have requested one. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of Company meetings, and audited financial reports from 2010 are available on the Company's website.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on Company matters.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

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### **Principle 7: Recognise and manage risk**

The Managing Director, Comptroller and Financial Controller provide a written statement to the Board that:

- the integrity of the Company's financial statements are prepared on the basis that there are appropriate internal controls and that there is sufficient compliance with these controls to ensure no material misstatement of the Company's affairs and financial position;
- the Company's risk management and controls systems are operating effectively in all material respects.

During the 2015 financial year, all matters normally within the province of the risk committee were referred to the full Board of Directors.

This included responsibility for ensuring that there are adequate policies in relation to risk management, compliance and internal control systems.

In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The Company Risk Management Policy and the operation of the risk management and compliance system are regularly reviewed by the full Board.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. In addition, the Board requires that each major proposal submitted to the Board for decision is accompanied by an appropriate review of risks and, where required, management's proposed mitigation strategies.

The Company recognises the importance of environmental and workplace occupational health and safety (WH&S) issues and is committed to the highest levels of performance. To help meet this objective the Environmental, Health & Safety Management System was established to facilitate the systematic identification of environmental and WH&S issues and to ensure they are managed in a structured manner.

This system allows the Company to:

- monitor its compliance with all relevant legislation both in Australia and in China;
- continually assess and improve the impact of its operations on the environment;
- encourage employees to actively participate in the management of environmental and WH&S issues;
- work with relevant associations representing the Group's businesses to raise standards;
- use energy and other resources efficiently; and
- encourage the adoption of similar standards by the Group's principle suppliers, contractors and distributors.

Information on compliance with significant environmental regulations is set out in the Directors' Report.

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### **Principle 8: Remunerate fairly and responsibly**

During the 2015 financial year all matters which would normally be referred to the remuneration committee were referred to the full Board of Directors.

This included responsibility for:

- remuneration and incentive policies and practices generally, and
- making specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Committee members receive regular information on recent developments on remuneration and related matters as required.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

The performance of senior executives is assessed against Group and individual performance targets at least at the time each of their contracts are due for renewal.

The Board reviews its performance on an on-going basis to ensure that individual directors and the Board as a whole work efficiently and effectively in fulfilling their functions set out in the Charter. In addition to this, the Chairman meets annually and separately with each non-executive director to discuss individual performance and ideas for improvement.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report".

The Board also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

### **Adoption of Principles and Recommendations**

The Group has adopted the Recommendations except as noted hereunder

#### *Recommendations 3.2 – 3.3*

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's international success is the result of the quality and skills of our people, who are primarily resident in northern China. Our practice is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance. In light of this, the Board has not adopted a formal diversity policy which includes requirements to establish measurable objectives for achieving gender diversity.

#### *Recommendation 4.2*

The Audit Committee did not consist of only non-executive directors and is not chaired by a person other than the Chair of the Board.

The Board believes that these exceptions to the Recommendations are appropriate given the size of the Board and the development stage of the Company.