

# CHINA MAGNESIUM CORPORATION LIMITED

## CORPORATE GOVERNANCE STATEMENT

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This Corporate Governance Statement is current as at 30 September 2019 and has been approved by the Board of China Magnesium Corporation Limited ('the Company') and its controlled entities (together with the Company, 'the Group') on that date. A copy can be found on the Company's website at [www.chinamagnesiumcorporation.com](http://www.chinamagnesiumcorporation.com)

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Principles and Recommendations ('Recommendations') unless otherwise stated.

### **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 Board supports the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council ('Council'). Whilst the Group's practices are largely consistent with the Council's guidelines, the Board considers that the implementation of some recommendations are not appropriate having regard to the scale of the Group's activities and size of the Board. The Board uses its best endeavours to ensure exceptions to the Council's guidelines do not have a negative impact on the Group and the best interests of shareholders as a whole. When the Group is not able to implement one of the Council's recommendations the Group applies the 'if not, why not' explanation approach by applying practices in accordance with the spirit of the relevant principle.

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

##### **Board role and responsibilities**

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.

##### **Responsibilities**

The principal functions and 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 the appointment and/or recommendation to shareholders for election;
- 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;

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- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organization;
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

### **Management**

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 (MD) or if no MD, to the Chief Executive Officer (CEO), Chief Operating Officer (COO) and senior executives.

The Company has followed Recommendation 1.1 by establishing the functions reserved to the Board and those delegated to senior executives as disclosed above.

### **Appointment as a Director**

The Company has followed Recommendation 1.2 by ensuring that the appointment of Directors who will come before shareholders for re-election at the Company's Annual General Meeting are suitable for the Group and equipped with the knowledge and information to discharge their roles adequately. In addition, the Company ensures that all relevant information that it possesses is disclosed in the notice of meeting to enable shareholders to make a decision on whether or not to elect or re-elect a Director.

The Company has followed Recommendation 1.3 by having a written agreement with each Director and senior executive setting out the terms of their employment.

### **Company Secretary**

Having regard to the current size of the Group and the composition and structure of the Board. The Company has not followed Recommendation 1.4 whereby the role of Company Secretary is exercised by a Non-executive director.

### **Diversity**

The Company's Board does take into account the gender, age, ethnicity, and cultural background of potential Board members, Company executives and employees. However, given the small size of the Group, a formal diversity policy has not been established and therefore Recommendation 1.5 has not been followed. The Company is not a Relevant Employer (as defined by the Workplace Gender Equality Act) and advises that no women are employed as key management personnel.

### **Board performance review and evaluation**

Having regard to the current size of the Group, the composition and structure of the Board, the Company has not followed Recommendation 1.6. However, the Board has the policy to ensure that Directors are equipped with the knowledge and information they need to effectively discharge their responsibilities. The Company will assess the Board structure during the financial ending 30 June 2020 to implement a process for periodically evaluating the performance of the Board.

### **Senior executives performance review and evaluation**

Having regard to the size of the Group and the small number of employees, other than the Directors, the Group does not have any senior executives and therefore, Recommendation 1.7 is not applicable.

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

#### Board of Directors – composition and structure

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

#### *Nomination Committee*

The objective of a Nomination Committee is to make recommendations to the Board regarding various matters including board succession, recruitment, induction, professional development, performance evaluation, recommending an appropriate balance of skills, knowledge, experience, independence and diversity as required. Having regard to the size of the Group and the small number of Directors, the Nomination Committee met only once in the financial year ended 30 June 2019, for information on the individual attendances of the committee members please refer to the annual report, however, in accordance with Recommendation 2.1, the full Board has the responsibility for and performs the functions of a Nomination Committee.

#### *Skills of the Board*

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. The Company follows Recommendation 2.2 by disclosing the Directors' qualifications, experience, date of appointment and independence status. Below is a summary of the current board skills matrix:

#### Board skill matrix

Area	Competence
Business Finance	Business strategy, financial literacy, executive management
Investment	Corporate mergers and acquisitions, corporate financing.
Technical	Engineering.
Leadership	Experience in public listed companies having the ability but not limited to setting Board directives and trade negotiation (China).

#### *Board composition and independence*

The Company follows Recommendation 2.3 by disclosing information in the table below and the Directors' qualifications, experience, date of appointment and independence status in the Directors' Report section of the Annual Report.

#### Details of Directors

Name of Director	Term in office	Qualifications	Status
Jin Thean Theo	Since January 2019	Bachelor of Commerce and Chartered Account (ISCA)	Executive Director CEO
Xin Ping Liang	Since May 2007	Engineer BEng, MEng	Executive Director COO
Marcelo Mora	Since February 2019	BBus, Chartered Secretary.	Non-executive Independent
Antony R. Tolfts	Since March 2019	Master's in Business administration, BComm.	Non-executive Independent

As only two of the Company's four Directors are classified as Independent Directors, the Company does not follow Recommendation 2.4. However, it is the Board's opinion that all Directors bring to the Board their uncompromised independent judgement, irrespective of whether they are independent or not.

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### *Chairman and CEO*

At the date of this report, the Board has not appointed a Chairman. Therefore, to this extent, the Company does not follow Recommendation 2.5. However, having regard to the size of the Group and the current nature of its activities, the appointment of more Directors is not warranted. Mr Theo holds the position of Chief Executive Officer.

### *Directors' induction and education*

In accordance with Recommendation 2.6, the Company encourages Directors to continue their professional development to assist them in performing their role effectively and has the policy to provide each new Director or officer with a copy of the following documents which are available on the Company's website:

- Code of Conduct;
- Continuous Disclosure and Shareholders Communication Policy;
- Share Trading Policy; and
- Risk Management.

### **Principle 3: Act ethically and responsibly**

All Directors, executives and employees are expected to act with the utmost integrity and objectivity in carrying out their duties and responsibilities, endeavouring at all times to enhance the reputation and performance of the Group. Every employee has direct access to a Director to whom they may refer any ethical issues that may arise from their employment. The Company has followed Recommendation 3.1 and has adopted a formal Code of Conduct policy, which is available on the Company's website at [www.chinamagnesiumcorporation.com\investor-centre/corporate-governance](http://www.chinamagnesiumcorporation.com\investor-centre/corporate-governance)

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.

### *Share dealings and disclosures*

The Group has adopted a policy relating to the trading in Company securities. The Board restricts Directors, executives and employees from acting on material information until released to the market. Directors are required to consult with the Chairman prior to dealing in securities in the Company or other companies with which the Company has a material relationship.

Trading in Company securities by Directors, executives or employees is not permitted at any time whilst in the possession of price-sensitive information that is not already available to the market. In addition, the Corporations Act prohibits the purchase or sale of securities whilst a person is in possession of inside information.

### *Conflicts of interest*

To ensure that Directors are at all times acting in the best interests of the Group, Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Group; and
- if requested by the Board, within a period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot, or is unwilling to remove a conflict of interest then the Director must, as required by the Corporations Act, absent himself from the room when Board discussion and/or voting occurs on matters about which the conflict relates.

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### Principle 4: Safeguard integrity in financial reporting

#### Audit Committee

The Company has followed recommendation 4.1 by establishing and Audit committee. The Audit Committee met 3 times during the financial year ended 30 June 2019. Having regard to the size of the Group, the current activities, the composition and structure of the Board, the company has only two independent directors. However, in compliance with Recommendation 4.1, the full Board has the responsibility for and performs the following functions of the Audit Committee 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;
- 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.

#### CEO and CFO declarations

In accordance with Recommendation 4.2. The Board has determined that the Managing Director/CEO and the CFO/Finance Manager are the appropriate persons to make the CEO and CFO declarations as required under section 295A of the Corporations Act.

The declaration confirms that, the internal control system is operating effectively in all material respects, the financial records of the Group have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group.

#### External Auditor and the AGM

The Company has followed Recommendation 4.3. and confirm that the Group's external auditor attends the Company's AGM and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditor's report.

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

The Company has followed Recommendation 5.1 and has adopted a formal Continuous Disclosure Policy, which is available on the Company's website [www.chinamagnesiumcorporation.com/investor-centre/corporate-governance](http://www.chinamagnesiumcorporation.com/investor-centre/corporate-governance).

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.

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 Company has followed Recommendation 6.1 by keeping investors informed through the Company's website at [www.chinamagnesiumcorporation.com](http://www.chinamagnesiumcorporation.com), and on the ASX website, [www.asx.com.au](http://www.asx.com.au), under ASX code 'CMC' regarding information about the Group, the Board, policies, reports and ASX announcements.

The Company has followed Recommendations 6.2 and 6.3 by designing a communications program to promote effective communication with shareholders and to encourage their participation at general meetings.

The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders and the market through:

- the Annual Report which is distributed to shareholders (usually with the Notice of Annual General Meeting);
- the Annual General Meeting and other general meetings called to obtain shareholder approvals as appropriate;
- the half-yearly financial statements;
- quarterly cash flow reports when required by the ASX; and
- other announcements released to the ASX as required under the continuous disclosure requirements of the ASX Listing Rules and other information that may be mailed to shareholders or made available through the Company's website.

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. All Company announcements, media briefings, details of Company meetings, and audited financial reports from 2010 are available on the Company's website.

The Company has followed Recommendation 6.4 by actively promoting communication with shareholders through a variety of measures, including the use of the Company's website and email and electronically through the share registry on [www.securitytransfer.com.au](http://www.securitytransfer.com.au)

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

Having regard to the size of the Group the composition and structure of the Board, a Risk Committee has not been established, however, in compliance with Recommendation 7.1, the full Board has the responsibility for and performs the functions of a Risk Committee.

The full Board is responsible for the identification, monitoring and management of significant business risks, assessment of the Group's insurance program and the implementation of appropriate levels of internal control, recognising, however, that no cost-effective internal control system will preclude all errors and irregularities. 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.

#### *Risk management*

The Company has followed Recommendation 7.2, whereby during 2019 financial year the full Board regularly reviews and monitors systems of external and internal controls and areas of significant operational, financial and property risk, and ensures arrangements are in place to contain such risks to acceptable levels.

#### *Internal audit function*

Having regard to the size of the Group, an internal audit function has not been established, however, in compliance with Recommendation 7.3, it is disclosed that the full Board carries out the risk management and internal audit functions.

#### *Risks and risk management*

In compliance with Recommendation 7.4, the material manageable risks which the Group is exposed to include operational risks, capital risks and human resources risks as follows:

- obtaining government approvals in China;
- environmental issues in China;
- workplace occupational health and safety (WH&S) issues both in Australia and in China;
- the ability to raise additional capital;
- recruiting and retaining qualified personnel; and
- government environmental regulations imposed on the Group's principle suppliers in China.

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

#### *Remuneration Committee*

Having regard to the size of the Group and the small number of Directors, the Remuneration Committee met only once in the financial year ended 30 June 2019, however, in accordance with Recommendation 8.1, for the remainder of the 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.

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.

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### *Remuneration policy*

In compliance with Recommendation 8.2, it is disclosed that the Group currently remunerates its Directors and senior executives based on fixed and incentive component salary packages to reflect the short and long-term objectives of the Group.

The following remuneration guidelines have been adopted to ensure that remuneration arrangements are equitable, appropriate, and not excessive:

- Directors' remuneration is voted on for approval by shareholders at the Annual General Meeting;
- consultants are engaged as required pursuant to service agreements;
- the full Board ensures that fees, salaries and emoluments are in line with general standards for publicly listed companies of the size and type of the Group; and
- the salaries of Directors and key management personnel are disclosed in the Annual Report.

The salary component of the Managing Director's or CEO remuneration is made up of:

- fixed remuneration;
- superannuation in accordance with legislation;
- Short term and long term incentive bonus; and

The salary component of non-executive and executive Directors is made up of:

- fixed remuneration;
- superannuation in accordance with legislation if Directors' fees are pay through payroll; and

At the date of this report, the Company is not required to follow Recommendation 8.3 because it does not have an equity-based remuneration scheme.

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