



Magontec Limited
[ASX:MGL]

Corporate Governance Statement
Year ended 31 Dec 2016

Approved: 23 February 2017

Introduction

This document was approved by the Magontec Limited Board of Directors on 23 February 2017.

This Corporate Governance Statement discloses the extent to which Magontec Limited complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) pursuant to ASX Listing Rule 4.10.3.

References below to 'Magontec', 'MGL' or the 'Company' refer to Magontec Limited and its wholly owned/or controlled subsidiaries.

Corporate Governance Context

Corporate Governance within any company takes place in the context of the company's circumstances – relative strength and availability of human and financial resources, its stage of development and shareholder expectations.

Certain of the recommendations of the ASX Corporate Governance Principles and Recommendations (3rd Edition) (as disclosed later in this document) have not been adopted by the Company.

MGL is a capital constrained company with a small team of core executives. Since abandonment of its original raison d'etre (the Stanwell electrolytic magnesium production facility) in the early part of the last decade, its primary tasks are the successful commercialisation of the Group's proprietary technologies and development of the Group's magnesium alloy production capabilities. This all takes place within the constraint of limited funding. It is a management challenge quite different from the challenges confronting a large established business. The act of judiciously allocating funding to the prime business tasks and management practices is one that requires careful balance to meet MGL's fiduciary responsibilities to members.

Summary of compliance with ASX recommendations

| Rec | Summary Description | Comply? |
|-----|---|---------|
| 1.1 | Disclose the role of board and management | Yes |
| 1.2 | Conduct appropriate checks and provide relevant information to security holders regarding directors nominated for the board | Yes |
| 1.3 | There should be written agreements or letters of appointment with each director and senior executive | Yes |
| 1.4 | The company secretary is directly accountable to the board, through the chair | Yes |
| 1.5 | Have and disclose a formal Gender Diversity Policy | No |
| 1.6 | Have a formal Board Evaluation Process | No |
| 1.7 | Have a formal Senior Management Evaluation Process | Yes |
| 2.1 | Have a Nomination Committee comprising a majority of independent directors, the roles and responsibilities of which should be disclosed | Yes |
| 2.2 | Disclose a Board Skills Matrix | Yes |
| 2.3 | Provide a description of Board Members considered to be independent, disclosing all relevant details | Yes |
| 2.4 | The majority of Board Members should be independent | No |
| 2.5 | The chair should be independent, and specifically should not be CEO | No |
| 2.6 | Disclose the program for inducting new directors, and provide appropriate professional development opportunities | No |
| 3.1 | Have and disclose a Code of Conduct | Yes |
| 4.1 | Have an Audit Committee comprising a majority of independent directors, the roles and responsibilities of which should be disclosed | No |
| 4.2 | The Board should receive a S295A declaration from the CEO and CFO before the release of the entity's financial statements where relevant | Yes |
| 4.3 | Ensure the external auditor attends the AGM | Yes |
| 5.1 | Have and disclose a written policy on Continuous Disclosure | Yes |
| 6.1 | The entity should provide information about itself and its governance on its website | Yes |
| 6.2 | Design and implement an investor relations program, tailored to individual circumstances | Yes |
| 6.3 | Disclose policies to encourage shareholder participation at meetings | Yes |
| 6.4 | Provide security holders the option to receive communications electronically both from the entity and the security registry | Yes |
| 7.1 | Have a formal risk committee, or disclose how risks are otherwise managed | Yes |
| 7.2 | Review the risk management framework each year and disclose if this review has taken place | Yes |
| 7.3 | Have an internal audit function, or disclose how risks are otherwise managed | Yes |
| 7.4 | Disclose exposure to material economic, environmental and social sustainability risks and how they are managed | Yes |
| 8.1 | Have a Remuneration Committee comprising a majority of independent directors, the roles and responsibilities of which should be disclosed | Yes |
| 8.2 | Disclose remuneration policies regarding directors & executives | Yes |
| 8.3 | Disclose if participants can hedge their equity based remuneration exposure | Yes |

Recommendation 1.1

A listed entity should disclose:

- a) the respective roles and responsibilities of its board and management; and**
- b) those matters expressly reserved to the board and those delegated to management**

The Board of Directors is responsible for protecting the rights and interests of shareholders through the development of sound policies and strategies, ensuring their implementation, and by the development of a framework of controls over the company's resources, functions and assets and properly accounting for its liabilities.

The Board's responsibilities include:

- Ensuring there are strong business controls and ethical standards/policies of behavior, including oversight of corporate governance processes
- Ensuring the significant risks facing the business have been identified and appropriate and adequate control monitoring and reporting mechanisms are in place including policies relating to continuous disclosure
- Determining strategic directions and establishing goals for management and monitoring performance against these goals and objectives.
- Appointing the Chairman and Chief Executive Officer or equivalent, evaluating performance and determining the remuneration of the Chief Executive Officer and senior executives.
- Ensuring there are policies and procedures for recruitment, training, remuneration and succession planning.
- Approving budgets and major capital expenditure

Management's responsibilities include:

- Implementation of resolutions by the Board and the strategic direction determined by the board within the framework of the company's risk appetite
- Day to day operation and administration of the company
- Providing accurate, timely and clear information to enable the board to perform its responsibilities

Further information regarding the functioning of the board can be found in the Magontec 'Corporate Governance Policies Overview' document located on the company's website www.magontec.com.

Recommendation 1.2

A listed entity should:

- a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and**
- b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director**

The Remuneration & Appointments Committee considers these matters in concert with the Board, and will be responsible for undertaking appropriate checks such as character, experience, education, criminal record and bankruptcy history where considered appropriate.

If a vacancy occurs on the Board, or if the size of the Board is to be increased, the Board will identify the experience, expertise and other qualities sought and identify appropriate candidates. The Board reviews the mix of experience, expertise and other qualities of the Directors. In addition to its current skills base, the Board might seek new Directors with understanding of industrial marketing and manufacturing processes and other relevant skills.

Security holders will be provided with the following information for directors standing either for election or re-election:

- Biographical details (qualifications, experience and skills)
- References, where necessary
- Details of other material directorships held by the candidate

Where the candidate is standing for election for the first time, security holders will be provided with:

- Any material adverse information found relating to that particular director
- Details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the company and its security holders generally; and
- A statement to effect that a director will be considered as an independent director, where considered applicable.

Where the candidate is standing for re-election, security holders will be provided with:

- The term of office currently served by the director
- If the board considers the director to be independent, a statement to that effect; and
- A statement by the board as to whether it supports the election or re-election of the candidate.

Recommendation 1.3

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

All executive directors and key management personnel (deemed to be senior executives reporting directly to the Executive Chairman) have been provided with formal service agreements. Details of executive remuneration are disclosed in the annual report for each reporting period.

Non-executive directors have been provided with letters of appointment setting out the key terms.

Recommendation 1.4

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary is directly accountable to the Magontec Board of Directors through the Executive Chairman on all matters to do with the proper functioning of the board.

All directors are able to communicate directly with the company secretary and vice versa and the decision to appoint or remove a company secretary is approved by the Board.

The responsibilities of the Company Secretary include:

- Advising the board and its committees on governance matters, including communications with the ASX, adherence to continuous disclosure obligations including policies regarding share dealing for all company directors, employees and consultants as well as monitoring that board and committee policy and procedures are followed
- Perform other duties and responsibilities of the Company Secretary otherwise required by the Corporations Act (CA), the Company's Constitution, the Australian Securities Exchange (ASX) Listing Rules and any other relevant legislation or statutory regulations
- Holding ultimate responsibility for the timely completion and dispatch of board and committee papers; and
- Other board secretarial functions, including ensuring records of director interests, company details, and other shareholder details are kept up to date

Recommendation 1.5

A listed entity should:

- (a) Have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;**
- (b) Disclose that policy or a summary of it; and**
- (c) Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:**
 - (1) The respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or**
 - (2) If the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.**

Magontec currently does not have a formal diversity policy. The Company's limited human and financial resources are focused on creating a sound financial footing from which to launch the Company's planned transformative alloy operations at Golmud in Qinghai Province (China).

The Company's priority is to produce a financial return on the capital subscribed since the 2011 re-building of the Company. The company will provide gender diversity with greater focus as the immediate strategic and financial rebuilding targets provide the Company with greater financial flexibility

Recommendation 1.6:

A listed entity should:

- (a) Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and**
- (b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process**

Magontec does not currently have a formal process to review and evaluate the performance of its board of directors.

As noted above, this is due to limited management resources in terms of the "Context" outlined above. This will be reviewed at the appropriate time.

Recommendation 1.7

A listed entity should:

(a) Have and disclose a process for periodically evaluating the performance of its senior executives; and

(b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board of Directors and the Executive Chairman undertake a formal performance review with each member of the key management personnel group on an annual basis. This was conducted during the year ended 31 December 2016 where actual performance is reviewed against KPIs agreed at the beginning of each year.

Recommendation 2.1

The board of a listed entity should:

(a) Have a nomination committee which:

- (1) has at least three members, a majority of whom are independent directors; and
- (2) is chaired by an independent director;

and disclose:

- (3) the charter of the committee;
- (4) the members of the committee; and
- (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) If it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The members of the Remuneration & Appointments Committee during the year ended 31 December 2016 and record of meeting attendance is below:

| | Independence | Attended | Held whilst in office |
|-------------------------------|---------------------|-----------------|------------------------------|
| Mr. Robert Kaye (Chairperson) | Independent | 0 | 0 |
| Mr. Robert Shaw | Independent | 0 | 0 |
| Mr. Zhong Jun Li | Non-independent | 0 | 0 |

The Remuneration & Appointments Committee comprised a majority of independent directors during the period with Mr. Robert Kaye and Mr. Robert Shaw deemed to be independent. The Committee was also chaired by an Independent Director, being Mr. Robert Kaye.

Further detail regarding the roles and responsibilities of the Committee are included in the Charter of the Remuneration & Appointments Committee available in the Corporate Governance section of the Magontec website.

Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The skills matrix of the Board of Directors of Magontec Limited is set out below:

| Skill | Description |
|-----------------------------------|--|
| Leadership | Experience in leading listed companies in addition to Magontec |
| International Business Experience | Relevant business experience in an International business environment – particularly China, Europe, the US and Asia. |
| Strategy | Ability to formulate and implement clear strategic objectives |
| Engineering | Expertise in industrial manufacturing businesses |
| Financial Acumen | Experience in understanding and interpreting financial accounts and setting reporting objectives |
| Governance | Understanding of governance matters, including adherence to ASX Listing Requirements |
| Legal | Expertise and experience in dealing with legal frameworks |
| Debt and Equity Markets | Expertise in capital structuring across both debt and equity markets |

If a vacancy occurs on the Board, or if the size of the Board is to be increased, the Board will identify the experience, expertise and other qualities sought and identify appropriate candidates. The Remuneration & Appointments Committee considers these matters in concert with the Board.

The Board reviews the mix of experience, expertise and other qualities of the Directors. In addition to its current skills base, the Board might seek new Directors with understanding of industrial marketing and manufacturing processes and other relevant skills including international business.

Recommendation 2.3

A listed entity should disclose:

(a) The names of the directors considered by the board to be independent directors;

(b) If a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and

(c) The length of service of each director.

During the year ended 31 December 2016, the directors who held office during and since the end of the financial year comprised:

| Name | Position | Length of Service as at 28 February 2017 | Appointed |
|-----------------------|--|--|------------------|
| Mr. Nicholas Andrews | Executive Chairman | 9 years, 10 months | 14 May 2007 |
| Mr. Kang Min Xie | Non-Executive Director | 4 years, 3 months | 29 November 2012 |
| Mr. Zhong Jun Li | Non-Executive Director | 7 years, 6 months | 31 August 2009 |
| Mr. Andre Labuschagne | Non-Executive Director | 3 years, 1 month | 22 January 2014 |
| Mr. Robert Kaye | Non-Executive Director, Independent | 3 years, 7 months | 19 July 2013 |
| Mr. Robert Shaw | Non-Executive Director, Independent | 6 years | 4 March 2011 |
| Mr. Yong Li | Alternate Director to Mr. Kang Min Xie | 2 year, 9 months | 29 May 2014 |

Mr. Robert Kaye and Mr. Robert Shaw are considered by the board to be independent directors. The independence of board members is assessed on an ongoing basis, the results of which are disclosed every year in the annual report.

Recommendation 2.4

A majority of the board of a listed entity should be independent directors.

Recommendation 2.5

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

The Magontec Limited board does not comprise a majority of independent directors. In addition, the position of the chair of the board is exercised by Mr. Nicholas Andrews, who serves in the capacity of Executive Chairman.

The Board remains highly cognisant of its fiduciary and corporate governance responsibilities to shareholders. Consistent with the description under “Context” above, the company is undergoing a significant transformation which remains in progress and as a result there is a need to carefully balance limited resources to the primary business task and management practices. These practices were undertaken only after due consideration of this balance.

Recommendation 2.6

A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively

There is no formal program for inducting directors due to limited management resources. However, senior management engages in frequent contact with each member of the Board of Directors and provides information and site visits to the directors in order to support them in building the skills and knowledge required to perform their roles effectively.

Recommendation 3.1

A listed entity should:

- a) Have a code of conduct for its directors, senior executives and employees; and**
- b) Disclose that code or a summary of it.**

The company has a Code of Conduct which has been posted on the Magontec website in the Corporate Governance section.

Recommendation 4.1

The board of a listed entity should:

(a) Have an audit committee which:

- (1) Has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and**
- (2) Is chaired by an independent director, who is not the chair of the board, and disclose:**
- (3) The charter of the committee;**
- (4) The relevant qualifications and experience of the members of the committee; and**
- (5) In relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**

(b) If it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner

The members of the Finance, Audit & Compliance Committee (FAC) during the year included:

- Mr. Robert Shaw (Chairperson)
- Mr. Kang Min Xie
- Mr. Andre Labuschagne

The Finance, Audit & Compliance Committee did not comprise a majority of independent directors during the year ended 31 December 2016. The Board is of the view that despite being a non-independent director, Mr. Labuschagne offers significant expertise in financial reporting matters, thus justifying his appointment.

The Committee was chaired by an Independent Director, being Mr. Robert Shaw. The Finance, Audit & Compliance Committee met twice during the financial year, attendance at which is recorded below:

| | | Attended | Held whilst in office |
|---|-----------------|-----------------|----------------------------------|
| Mr. Robert Shaw (Chairperson) | Independent | 2 | 2 |
| Mr. Andre Labuschagne | Non-independent | 2 | 2 |
| Mr. Li Yong (Alternate to Mr. Kang Min Xie) | Non-independent | 2 | 2 |

The Charter of the Finance, Audit & Compliance Committee can be found on the Magontec website.

The relevant qualification and expertise of each of the directors is included in the biographical information located on the company's website under the Investor Relations section titled 'Directors and Management' as well as in the 2016 Annual Report.

Recommendation 4.2

The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

In releasing this report, the company confirms that prior to approving the financial statements, the Board received from the CEO and CFO a declaration that in their opinion and in accordance with s295A of the Corporations Act:

- The financial records of the entity have been properly maintained in accordance with this Act; and
- That the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity; and
- That the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The company's policy is to make available at the AGM a representative of the external auditor, Camphin Boston. This representative was available to answer questions from security holders with respect to the audit at the 2016 AGM.

Recommendation 5.1

A listed entity should:

(a) Have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and

(b) Disclose that policy or a summary of it

The company has a written policy for complying with its continuous disclosure obligations pursuant to ASX Listing Rules. The policy can be found in the Corporate Governance section of the Magontec website.

Recommendation 6.1

A listed entity should provide information about itself and its governance to investors via its website.

Magontec provides shareholders with information about itself and its governance on its website. Refer to www.magontec.com and follow the appropriate links to the Investor Relations and Corporate Governance sections of the website.

Recommendation 6.2

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

The company provides an opportunity for security holders to actively engage with members of its Board and Key Management Personnel at the Annual General Meeting. Magontec also responds to shareholder enquiries made from time to time as considered appropriate.

Recommendation 6.3

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

In addition to the AGM, the company responds to queries from security holders who are not able to attend this meeting.

Recommendation 6.4

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

Shareholders are given the option to receive communications in electronic form, and are highly encouraged to do so in order to reduce administrative costs for the company as well as to realise environmental benefits.

Recommendation 7.1

The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
 - (1) has at least three members, a majority of whom are independent directors; and**
 - (2) is chaired by an independent director,**
and disclose:
 - (3) The charter of the committee;**
 - (4) the members of the committee; and**
 - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or****
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.**

Recommendation 7.2

The board or a committee of the board should:

- (a) Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and**
- (b) Disclose, in relation to each reporting period, whether such a review has taken place.**

Matters of risk are considered by the full board of directors, rather than delegated to a specific risk committee.

The company has compiled a risk register which gives due consideration to the likely impact and probability of each risk. This register was reviewed during the year ended 31 December 2016.

Recommendation 7.3

A listed entity should disclose:

- (a) If it has an internal audit function, how the function is structured and what role it performs; or**
- (b) If it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.**

Due to its current size and nature of operations, Magontec does not have a formal internal audit function. In addition to the Finance, Audit & Compliance Committee, the Executive Chairman and Chief Financial Officer retain primary responsibility for risk management and internal control process, engaging external consultants where deemed necessary whilst balancing limited administrative resources.

Recommendation 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

Magontec has material exposure to the following categories of risk which have the potential to impact adversely on the Company:

- Safety of employees and other operational risks
- Environmental risks
- Insurance and liability risk
- Capital expenditure project delays
- Financial & compliance risk
- Treasury risks
- Geopolitical risks arising from international operations

Each new specific material risk is entered into the MGL risk register, and are reviewed annually for appropriateness by the Board. Action plans are then formulated for senior management to implement where considered necessary in order to minimise the material specific risks identified.

Recommendation 8.1

The board of a listed entity should:

(a) Have a remuneration committee which:

(1) has at least three members, a majority of whom are independent directors; and

(2) is chaired by an independent director, and disclose:

(3) the charter of the committee;

(4) the members of the committee; and

(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) If it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

As noted above, the members of the Remuneration & Appointments Committee during the year ended 31 December 2016 and record of meeting attendance is set out below:

| | Independence | Attended | Held whilst in office |
|-------------------------------|-----------------|----------|-----------------------|
| Mr. Robert Kaye (Chairperson) | Independent | - | - |
| Mr. Robert Shaw | Independent | - | - |
| Mr. Zhong Jun Li | Non-independent | - | - |

A meeting was held on 9th February 2017 to review 2016 STIs, LTIs and remuneration more generally.

The Remuneration and Appointments Committee comprised a majority of independent directors during the period with Mr. Robert Kaye and Mr. Robert Shaw deemed to be independent. The Committee was also chaired by an Independent Director, being Mr. Robert Kaye.

Further detail regarding the roles and responsibilities of the Committee are included in the Charter of the Remuneration & Appointments Committee which is available in the Corporate Governance section of the Magontec website.

Recommendation 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

The policies and practices regarding the remuneration of non-executive directors and the remuneration of executive and other senior executives have been included in the Charter of the Remuneration & Appointments Committee. This can be found in the Corporate Governance section of the Magontec website.

Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

(a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and

(b) Disclose that policy or a summary of it

The company's policy is that any participants included in an equity based remuneration scheme are not permitted to enter into transactions which limit the economic risk of participating in the scheme.