



**AUSTRALIAN BAUXITE LIMITED**  
ASX:ABZ

18 December 2009

Company Announcement Office  
Australian Securities Exchange Limited

### **Corporate Governance Statement**

Australian Bauxite Limited (**the Company**) provides the following statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council and where the Company has not followed all of the recommendations, those recommendations that have not been followed have been identified and reasons for not following them given.

#### **Overview**

The company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the "Principles of Good Corporate Governance and Best Practice recommendations" set by the ASX Corporate Governance Council.

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations.

Consistent with the ASX best practice recommendations, the company's corporate government practices have been disclosed in the Prospectus and are regularly reviewed and will be available on the Company's website.

#### **Compliance with ASX Corporate Governance Council best practice recommendations**

This statement provides details of the company's adoption of the best practice recommendations.

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

Companies should establish and disclose the respective roles and responsibilities of board and management.

##### **Board responsibilities**

The Board of directors is accountable to shareholders for the performance of the group. In carrying out its

responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board's responsibilities will be encompassed in a formal charter to be published on the Company's website. The charter will be reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;

**AUSTRALIAN BAUXITE LIMITED**  
ACN 139 494 885

Level 2 Hudson House 131 Macquarie Street Sydney NSW 2000  
P: +61 2 9251 7177 F: +61 2 9251 7500

- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

#### **Directors' education**

The company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The company also provides a formal induction process which provides key information on the nature of the business and its operations

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

#### **Role of Chairman**

The chairman is appointed by fellow board members and acts as the link between the board and the CEO.

He acts as the link between the board and the company, establishing and maintaining an effective working relationship with the CEO. The chairman sets the tone for the board, including the establishment of a common purpose. He is responsible for chairing board meetings and shaping the agenda in relation to goals, strategy, budget and executive performance.

The chairman ensures all board members contribute and reach consensus in making decisions. He also assists in the selection of board committee members.

The chairman provides direction to the board in matters of corporate governance.

#### **Role of Chief Executive Officer**

The Board delegates responsibility for implementing the strategic direction and for managing the day to day operations of the Company to the CEO.

There are clear lines of communication established between the Chairman and CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

The CEO has a formal service contract in place setting out duties, responsibilities, and rights, conditions of service and termination entitlements. Performance will be assessed against pre-determined objectives on an annual basis or more frequently if required.

The assessment and monitoring of the CEO is the responsibility of the Chairman. The Chairman provides an initial assessment and recommendation to the Board. The matter is then considered by the Board and their views are communicated to the CEO by the Chairman.

#### **Principle 2 – Structure the board to add value**

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

#### **Composition of the Board**

The Board of Directors is comprised of two executive directors and three non-executive directors, all of whom have a broad range of skills and experience.

There is one director who is the Chairman.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The company does not comply with recommendation 2.1 which provides that a majority of the board be independent directors.

At this stage of the Company's development, the board considers it is neither appropriate nor cost effective for there to be a majority of independent directors.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The board considers that its composition provides for the timely and efficient decision making required for the company in its current circumstances.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of ten.

The Board proposes to hold 6 scheduled meetings each year together with any ad hoc meetings as may be necessary.

#### **Access to independent professional advice**

All directors are required to bring an independent judgement to bear on Board decisions.

To facilitate this, the Board has adopted a procedure which allows each Director the right of access to all relevant company information and to the Company's Executives. The directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of these resources is co-ordinated through the Chairman of the board.

#### **Nomination Committee**

The role of the Nomination Committee is undertaken by the full Board.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders

For directors retiring by rotation the Board assesses that Director before recommending re-election.

The Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the appointment of a Nomination Committee for prospective Board appointments. The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a Separate Nomination Committee.

#### **Board performance evaluation**

The company has processes in place to review the performance of the board and its committees and individual directors. Each year the board of directors will give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

### **Principle 3 – Promote Ethical and Responsible Decision making**

Companies should actively promote ethical and responsible decision making.

#### **Code of conduct**

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices.

#### **Policy on dealing in Company securities**

The Company has a policy on how and when the Directors and employees may deal in the Company's securities. The purpose of this policy is to ensure that the Directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires all Directors and employees to seek approval from the Chairman or the Managing Director prior to dealing in the Company's securities.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented.

In addition there is also an internal review mechanism to assess compliance and effectiveness.

Details of both the Company's Code of Conduct and Share Trading Policy have been disclosed in the Prospectus and will be posted on the Company's website.

### **Principle 4 – Safeguard Integrity in Financial Reporting**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

#### **Audit committee**

The audit committee consists of the full Board. The structure of the audit committee does not comply with recommendation 4.2 which recommends that the audit committee consists of only Non-Executive Directors and the committee should have an independent Chairperson who is not the Chairperson of the Board.

The Board considers that given its current size and structure it is neither appropriate nor cost effective for the establishment of a separate audit committee.

The committee will meet twice a year. The audit committee has adopted a formal charter which set out the responsibilities of the audit committee.

Details of the Formal Charter have been disclosed in the Prospectus and will be posted on the Company's website.

These responsibilities include:

- Reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Monitoring corporate risk management practices;

- Review and approval of the Group's accounting policies and procedures;
- Reviewing the external audit plans;
- Reviewing the nomination, performance and independence of the external auditors; and
- Organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

#### **External auditors**

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board will receive regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

KS Black and Co has consented to act and have been appointed auditors.

The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years.

#### **Principle 5 – Make timely and balanced disclosure**

The Company promotes timely and balanced disclosure of any material matters concerning the Company.

The Company has disclosed its policy on information disclosure in the Prospectus. It focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary in consultation with the Chairman, is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

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

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

##### **Communication with shareholders**

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

The Company will achieve this through the following avenues:

##### **Regular mailings**

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

**Email update service**

An email update service has been established and is available to the general public as well as shareholders at the Company's website or upon request.

**General meetings**

All shareholders are invited to attend the Annual General Meetings which are to be held at the Company's Head Office in Sydney. The full Board and senior executives will be present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

**Principle 7 – Recognise and Manage Risks**

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assess the Company's performance in light of risks identified by such reports.

Management are also required to design implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement

an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

**Principle 8 – Remunerate fairly and responsibly**

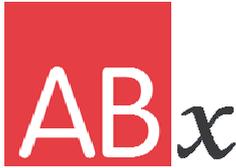
Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

The Board has established a remuneration committee consisting of Vincent Tan and Wei Huang.

The Committee has adopted a formal charter.

The main responsibilities of the Remuneration Committee will include:

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- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.



- The committee will meet as often as required but not less than once per year.

#### **Executive directors and executive remuneration**

The remuneration committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Share Option Plan and Employee Share Purchase Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the company's operation.

Consideration is also given to reasonableness, acceptability to

shareholders and appropriateness for the current level of operations.

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

Remuneration of Non-Executive Directors will be determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Directors have the right to participate in the Company's Share Option Plan and Employee Share Purchase Plan.

The Company does not comply with recommendation 8.1 in relation to the composition of the Remuneration Committee in that it does not consist of at least 3 members.

The board considers that at this stage of the company's development it is neither appropriate nor cost effective to adopt the ASX Corporate Governance Guidelines.

This matter continues to be under review. A copy of the charter adopted by the Remuneration Committee will be posted on the Company's Website.

#### **For further information please contact**

Investor Relations, Henry Kinstlinger  
Hudson Resources Limited

Telephone: +61 2 9251 7177