

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of Advanced Braking Technology Ltd has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

### **ASX BEST PRACTICE RECOMMENDATIONS**

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficiency, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

Details have been included at the end of this statement setting out the ASX Best Practice Recommendations with which the Company has and has not complied in the reporting period.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

### **THE BOARD OF DIRECTORS**

#### ***Role of the Board***

The primary responsibilities of the Board are set out in a written policy and include:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

### ***Board composition***

The Directors' report contains details of the Directors' skill, experience and education. The Board seeks to establish a Board that consists of Directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. To maintain this, the Company's policy is that executive Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

The Board comprises two non-executive independent Directors. Details of the Directors are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new Directors but has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. The selection of the Directors must be approved by the majority of the shareholders.

### ***Retirement and re-election of Directors***

The Constitution of the Company requires one third of Directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by shareholders.

### ***Independence of Directors***

The Board has reviewed the position and associations of all Directors in office at the date of this report and considers that all the Directors are independent. In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

The Board considers that all Directors meet the criteria in ASX Principle 2. They have no material business or contractual relationship with the Company, other than as Directors and Shareholders, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

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

With the prior approval of the Chairperson, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

### ***Board performance review***

The performance of all Directors is assessed through review by the Board as a whole. A Director's attendance at and involvement in Board meetings, his contribution and other matters identified by the Board or other Directors are taken into consideration. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

The Company has not conducted a performance evaluation of the members of the Board during the reporting period, however the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

## **DIRECTOR REMUNERATION**

Details of the Company's remuneration policies are included in the "Directors' and executives' remuneration" section of the Directors' Report and Note 5.

Non-executive Directors will be remunerated by cash or share benefits alone and will not be provided with retirement benefits (except in exceptional circumstances). Executive Directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

## **MANAGING BUSINESS RISK**

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Managing Director (or Chief Executive Officer) and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

## **INTERNAL CONTROLS**

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the non executive Directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

## **AUDIT COMMITTEE**

The Board has delegated the Audit review responsibilities to a sub-committee of the Board, consisting of two non executive Directors, Professor Malcolm Richmond (Chairperson) and Mr David Humann. Mr Chris Coudounaris was also a member of the audit committee until his resignation on 19<sup>th</sup> January 2009. Meetings are held throughout the year between the Audit Committee the Company's CFO and the auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The Board has no formal procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

## **ETHICAL STANDARDS**

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Company's affairs. This Code is provided to all Directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Company's Managing Director (or in his place the Chairperson) as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

## **TRADING IN THE COMPANY'S SECURITIES BY DIRECTORS AND EMPLOYEES**

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all Directors and employees. Under the policy, Directors are prohibited from short term or "active" trading in the Company's securities and Directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Company's Managing Director (or in his place the Chairperson) must also be notified of any proposed transaction.

This policy is provided to all Directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

## **CONTINUOUS DISCLOSURE**

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules and ensure officers and employees of the Company understand these obligations. The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

## **SHAREHOLDERS**

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Stock Exchange in accordance with the Company's continuous disclosure policy, including quarterly cash flow reports, half-year audit reviewed accounts, year end audited accounts and an Annual Report;
- the Board ensures the Annual Report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- shareholders are advised in writing of key issues affecting the Company by effective use of the Company's share registry;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;
- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

## **ASX BEST PRACTICE RECOMMENDATIONS**

Pursuant to the ASX Listing Rules, the Company advises that based upon the information set out above, it does comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council.

*Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.*

The Board has adopted a statement of its primary responsibilities as set out above, which reflects the policies that were in place during the reporting year.

*Recommendation 2.1: A majority of the board should be independent Directors.*

As set out above, the Board consider that the majority of two of three Directors are independent non-executive Directors.

*Recommendation 2.2: The Chairperson should be an independent Director.*

As set out above, the Company's chairperson, Mr David Humann is considered to be an independent Director.

*Recommendation 2.3: The roles of the chairperson and chief executive officer should not be exercised by the same individual*

The role of the chairperson has been fulfilled by Mr David Humann and the role of Chief Executive Officer has been fulfilled by Mr Ken Johnsen.

*Recommendation 3.1: Establish a code of conduct to guide Directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:*

*3.1.1 the practices necessary to maintain confidence in the company's integrity*

*3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

As set out above, the Company has adopted a Code of Conduct, which reflects policies that were in place during the reporting year.

*Recommendation 3.2: Disclose the policy concerning trading in company securities by Directors, officers and employees.*

As set out above, the Company has adopted a securities trading policy.

*Recommendation 3.3: Provide the information indicated in "Guide to Reporting on Principle 3".*

The Company has made available a summary of its Code of Conduct and securities trading policy in this statement, but has not otherwise made this information publicly available.

*Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.*

As set out above, the Company complies with this requirement.

*Recommendation 4.2: The Board should establish an Audit Committee.*

As set out above the Board has established an Audit committee

*Recommendation 4.3: Structure of the Audit Committee so that it consists of:*

- only Non-Executive Directors;
- a majority of Independent Directors;
- an independent Chairperson, who is not chairperson of the Board;
- at least three members.

The Audit committee consists of two non Executive Directors with an independent Chairperson who is not the Chairperson of the Board.

*Recommendation 4.4: The Audit Committee should have a formal charter.*

The Audit committee has a formal charter. The Board also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Best Practice Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

*Recommendation 5.1: Establish written 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.*

As set out above, the Company has adopted a continuous disclosure policy, which reflects policies that were in place during the reporting year.

*Recommendation 5.2: Provide the information indicated in "Guide to Reporting on Principle 5".*

The Company has provided a summary of its continuous disclosure policy in this Statement.

*Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.*

As set out above, the Company has adopted a communications policy, which reflects policies that were in place during the reporting year.

*Recommendation 6.2: Request the external auditor to 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 auditor's report.*

As set out above, the Company requests its auditor to attend the annual general meeting.

*Recommendation 7.1: The board or appropriate committee should establish policies on risk oversight and management.*

As set out above, the Board has established policies on risk oversight and management.

*Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state to the board in writing that:*

- 7.2.1 *the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.*
- 7.2.2 *the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.*

As set out above, the Company complies with this requirement.

*Recommendation 7.3: Provide the information indicated in "Guide to Reporting on Principle 7".*

The Company has provided relevant information in this Statement upon recognising and managing risk, but has not otherwise made a description of its risk management policy and internal compliance and control system publicly available.

*Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual Directors, and key executives.*

The Company's processes for performance evaluation are set out above.

*Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to Directors and key executives and corporate performance.*

The Company's remuneration policies are referred to above.

*Recommendation 9.3: Clearly distinguish the structure of non-executive Directors' remuneration from that of executives.*

The distinction between non-executive and executive remuneration is detailed above.

*Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.*

As set out in the Company's remuneration policies, the Company complies with this requirement.

*Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.*

As set out above, the Company has adopted a Code of Conduct setting standards of behaviour and compliance with obligations to stakeholders, which reflects policies in place during the reporting year.

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

*Recommendation 2.4: The Board should establish a Nomination Committee.*

The functions to be performed by a nomination committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

*Recommendation 2.5: Provide the information indicated in "Guide to reporting on Principle 2".*

One of the matters to be included in the corporate governance section of the Annual Report pursuant to the *Guide to reporting on Principle 2* is "the names of members of the nomination committee and their attendance at meetings of the committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a nomination committee and therefore this information has not been included in the annual report or otherwise made publicly available. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 2* by the inclusion of information in this Statement, but has not otherwise made the information publicly available.

*Recommendation 9.2: The Board should establish a Remuneration Committee.*

The functions to be performed by a remuneration committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

*Recommendation 9.5: Provide the information indicated in “Guide to reporting on Principle 9”.*

One of the matters to be included in the corporate governance section of the Annual Report pursuant to the *Guide to reporting on Principle 9* is “*the names of members of the remuneration committee and their attendance at meetings of the committee*”. As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a remuneration committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the remuneration committee, details of the Company’s Directors and their attendance at Board meetings are set out in the Company’s Annual Report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 9*.