

CORPORATE GOVERNANCE STATEMENT

Silex Systems Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance.

The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

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

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

1. Role of the board of directors

The board of directors is accountable to shareholders for the performance of the Group and is responsible for the corporate governance practices of the Group.

The board's principal objective is to maintain and increase shareholder value while ensuring that the Group's overall activities are properly managed.

Silex's corporate governance practices provide the structure which enables the board's principal objective to be achieved, whilst ensuring that the business and affairs of the group are conducted ethically and in accordance with the law.

The board's overall responsibilities include:

- providing strategic direction and approving corporate strategies;
- monitoring management and financial performance and reporting;
- monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms, and
- ensuring the business is conducted ethically and transparently.
- The board delegates responsibility for day-to-day management of the business to the Managing Director. The Managing Director also oversees the implementation of strategies approved by the board. The board uses committees to support it in matters that require more intensive review and involvement. Details of the board committees are provided below.

As part of its commitment to good corporate governance, the board undertakes regular reviews of the practices and standards governing the board's composition, independence and effectiveness, the accountability and compensation of directors and the board's responsibility for the stewardship of the Group.

2. Composition of the board

The board is comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a balanced perspective to the board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management.

The Chairman is an independent non-executive director, the majority of the board are independent of management and all directors are required to bring independent judgement to bear in their board decision making. The Chairman is elected by the full board.

The Company maintains a mix of directors on the board from different backgrounds with complementary skills and experience.

The board undertakes an annual board performance review and considers the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Group.

3. Board members

The Directors of the Company in office at the date of this statement are:

Name	Age	Position	Expertise
Dr M P Goldsworthy	50	Managing Director/CEO	Physicist and Co-inventor of the SILEX Technology
Mr C D Wilks	50	Director	Investment Banking, Finance and Company Management
Dr C S Goldschmidt	54	Non-executive Director	Company Management
Mr B S Patterson	67	Non-executive Director/Chairman	Company Management
Mr R P Campbell	63	Non-executive Director	Finance and Accounting, Computing and Company Management

All of Silex's non-executive directors, including the Chairman, are considered independent. An independent director cannot be a substantial shareholder (as defined in section 9 of the *Corporations Act 2001*). The size and composition of the board is determined by the full board.

4. Directors' independence

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

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, not have been employed in an executive capacity by the Company or any other group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

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

5. Term of office

The Company's Articles of Association specifies that all directors other than the Managing Director must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

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

6. Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, and facilitating board discussions.

The CEO is responsible for the day-to-day management of the Company's affairs, and for implementing Group strategies and policies as determined by the Board of Directors.

7. Board meetings

The board meets formally at least 9 times a year to consider a broad range of matters, including progress with respect to the Company's various development programs, strategy, financial reviews, acquisitions and investments. Details of meetings and attendances are set out in the Directors' Report.

8. Independent professional advice

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

9. Performance assessment and remuneration

The board meets to undertake an annual self assessment of its collective performance, the performance of the Chairman and of its committees. This was performed in February 2008 and all deemed satisfactory. The board discusses a broad range of issues including the progress of the various research and development projects, the financial results, capital raisings, major deals negotiated and the share price.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment. The managing director meets annually with non-director senior executives to discuss their performance. Feedback is also sought from other directors.

The Directors' report contains details of remuneration paid to directors and executives. Executive and non-executive directors' fees are clearly separated in the Directors' report. Where bonuses are paid, details of the reason for the bonus are described. Options issued to executive directors are approved by shareholders at the Annual General Meeting.

Additional information on performance evaluation and remuneration is provided in the Directors' Report.

10. Corporate reporting

The Managing Director/CEO and Financial Controller have made the following certifications to the board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

11. Board committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration and audit committees. Each is comprised of a majority of non-executive directors. The committee structure and membership is reviewed on an annual basis.

12. Remuneration committee

The remuneration committee consists of the following non-executive directors:
B S Patterson (Chairman)
R P Campbell

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report.

The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. Further information on directors' and executives' remuneration is set out in the directors' report and note 28 to the financial statements.

The remuneration committee adopts policies that attract and maintain talented and motivated directors and employees so as to encourage enhanced performance.

13. Audit committee

The audit committee consists of 3 non-executive independent directors as follows:

R P Campbell (Chairman)
C S Goldschmidt
B S Patterson

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. The charter is reviewed on an annual basis and is available on the Company website.

Minutes of committee meetings are tabled at the subsequent board meeting.

The audit committee operates in accordance with a charter. The main responsibilities of the committee are to:

- review, assess and approve the financial reports and all other financial information published by the Company or released to the market
- assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- 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
- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year – more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the board.

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

14. Nomination committee

The Board has decided that it is in the Company's best interest that the full Board deal with nomination issues. As a result a Nomination Committee has not been established.

15. External auditors

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 30 to the financial statements. It is the policy of the external auditors to provide annual declarations of their independence to the audit committee.

The external auditor is requested 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 audit report.

16. Risk assessment and management

The board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies, detailed in the audit committee charter are available on the Company website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the board actively promotes a culture of quality and integrity.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

The Board requires management to design and implement the risk management and internal control system to manage the Company's material business risks. The board discusses these policies at regular intervals. For example management provides details of cash deposits and intellectual property patenting on a regular basis for review. Management reports on the effectiveness of the Company's management of its material business risks.

The board requires that each major proposal submitted to the board for decision is accompanied by sufficient due diligence and risk review.

17. Occupational Health and Safety (OH&S)

The Company recognises the importance of occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the OH&S Committee was established to facilitate the systematic identification of OH&S issues and to ensure they are managed in a structured and rigorous manner. This system has been operating for a number of years and allows the Company to:

- monitor its compliance with all relevant OH&S legislation and regulations,
- continually assess and improve the effectiveness of the Company's OH&S program,
- encourage employees to actively participate in the management of all OH&S issues, and
- reinforce the importance of safe work practices throughout the Company, as mandated by management.

18. Environmental regulation

As noted in the Directors' report, the Company is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The Company is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and is a licensee under that Act. To the best of the Directors' knowledge, all environmental regulatory requirements have been met.

19. Code of conduct

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the board and applies to all directors and employees.

In summary, the Code requires that at all times Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

A copy of the Code is available on the Company's website.

20. Share trading policy

The Company has in place a formal share trading policy which places certain prohibitions on the trading of the Company's shares. The policy is on the Company's website. All Silex share dealings by directors are promptly notified to the Australian Stock Exchange (ASX). All directors and employees are prohibited from buying and selling Silex shares at any time if they are aware of any material price sensitive information that has not been made available to the public. This however does not restrict directors and employees from exercising options over unissued Silex shares. Trading of the subsequently issued shares is however subject to the prohibitions above. The Share trading policy is available on the Company's website.

21. Independent professional advice and access to information

Each director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

All directors have access to Company records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

22. Conflicts of interest of directors

The board has guidelines dealing with disclosure of interests by directors and participation and voting at board meetings where any such interests are discussed. In accordance with the *Corporations Act 2001*, any director with a material personal interest in a matter being considered by the board does not receive the relevant board papers, must not be present when the matter is being considered, and may not vote on the matter.

Further details of directors' remuneration, superannuation and retirement payments are set out in the Directors' Report.

23. Continuous disclosure and shareholder communication

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

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

Information disclosed to the ASX is posted on the Company's web site as soon as it is disclosed to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

24. The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the group's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders who have elected to receive it and is posted on the company's website. The board ensures that the annual report includes relevant information about the operations of the group during the year, changes in the state of affairs of the group and details of likely future developments, in addition to the other disclosures required by the *Corporations Act 2001*;
- Proposed major changes in the group which may impact on share ownership rights are submitted to a vote of shareholders.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of directors.