

<b>1. Approach to Corporate Governance</b>	<b>2</b>
a) Framework and approach	2
b) Compliance with ASXCGC' best practice recommendations	2
<b>2. The board of directors</b>	<b>3</b>
a) Membership	3
b) Size, composition, and independence	3
c) Roles of board and management	4
d) Selection and role of the chair	4
e) Meetings and conduct	5
f) Conflicts of interest	5
g) Appointment of directors and terms of office	5
h) Company secretary	6
i) Board access to information and advice	6
<b>3. Board Committees</b>	<b>6</b>
a) Establishment and membership	6
b) Committee procedures	7
c) Audit and risk committee	7
d) Nomination committee	8
e) Remuneration committee	9
<b>4. Integrity of financial reporting</b>	<b>10</b>
a) CEO / CFO assurance	10
b) Audit governance and independence	10
<b>5. Managing risk</b>	<b>11</b>
a) Risk management approach	11
b) Roles and responsibilities	11
<b>6. Promote ethical and responsible behaviour</b>	<b>13</b>
a) Code of conduct	13
b) Securities trading	14
c) Environmental health and safety	14
<b>7. Market disclosure</b>	<b>14</b>
<b>8. Shareholder communications</b>	<b>15</b>
<b>9. Privacy statement and policy</b>	<b>15</b>
<b>10. ASXCGS best practice recommendations – compliance table</b>	<b>16</b>

## 1. APPROACH TO CORPORATE GOVERNANCE

### *1a. Framework and approach*

Cytopia Limited's approach to corporate governance is to have a set of values and behaviours that underpin everyday activities, ensure transparency, and protect stakeholder interests. Cytopia and its board are committed to achieving and demonstrating the highest standard of corporate governance.

The board is responsible to the shareholders for the performance of the company and takes ultimate responsibility for corporate governance matters. The daily management of the company's business and the implementation of its strategy and policy initiatives are delegated by the board to the managing director and the chief financial officer within the corporate governance framework detailed herein. The company secretary is accountable to the board, through the chair, on all governance matters.

The following corporate governance framework has been implemented to ensure the highest standard of corporate governance is achieved:

- the board has established a number of committees to assist it in its duties, to monitor performance and allow detailed consideration of complex issues;
- the board has established an internal risk management framework focusing on key business risks;
- the company has adopted a code of professional ethics and conduct which applies to all directors, employees, consultants and advisors;
- the board has implemented strict policies regarding related party transactions and the acquisition and disposal of the company's securities by directors, employees, consultants and contractors; and
- the company has adopted clear reporting and communication policies and procedures.

A detailed description of this corporate governance framework is set out below. This document should be read in conjunction with the Corporate Governance Statement found in the most recent Annual Report

### *1b. Compliance with Australian Stock Exchange Corporate Governance Council (ASXCGC)'s best practice recommendations*

The ASX listing rules require listed entities to include in their annual report a statement disclosing the extent to which they have followed the 28 ASXCGC best practice recommendations during the reporting period, identifying the recommendations that have not been followed and providing reasons for that variance.

The company has substantially adopted the ASXCGC's corporate governance framework including principles of good corporate governance and the 28 best practice recommendations. A checklist summarising this is set out in section 10 of this Corporate Governance Statement. The board's approach has been to adopt the principles and practices that are in the stakeholder's best interests while ensuring full compliance with legal requirements.

Where the ASX Corporate Governance Council's recommendations have not been adopted by the company, this is identified below and explained in the following sections.

Principle 2.1: *A majority of the board should be independent directors* – Section 2b

Principle 2.2: *The chairperson should be an independent director* – Section 2b, and 2d

Principle 4.3: *Structure the audit committee so that it consists of a majority of independent directors* – Section 3c

## 2. THE BOARD OF DIRECTORS

### *2a. Membership*

The board seeks to ensure that its membership represents an appropriate balance between directors with experience and knowledge of the company, and directors with an external or fresh perspective, and that the size of the board is conducive to effective discussion and efficient decision making.

The board currently comprises one executive director and six non-executive directors, of which three are considered independent. Details of the members of the board, their experience, expertise, qualifications, and term of office are set out in the most recent Annual Report in the directors' report under the heading, "Information on Directors". Information on directors is also available on the company's website at [www.cytopia.com.au](http://www.cytopia.com.au).

### *2b. Size, composition, and independence*

#### Size and composition

The constitution of the company provides that the number of directors shall not be less than three nor more than eight.

Each director is required to bring relevant complementary skills and experience to the board. There must be sufficient benefit to the company to justify maintaining the mix of directors. The Nominations committee reviews these factors annually to ensure there are the required skills for the board to discharge its duties, having regard to the company's strategic goals and objectives and current and emerging issues..

#### Independence

The board must continuously review the independence of its non-executive directors in light of the ASX Corporate Governance Councils' definition. The board assesses each director against a range of criteria to decide whether they are in a position to exercise independent (or perceived independent) judgment. Directors are considered to be independent if they are independent of management and free of any other relationship that could, or could be perceived to, interfere with their independent judgment. Such relationships include:

- being a substantial shareholder or associated with a substantial shareholder of Cytopia;
- within the last 3 years being an executive officer of Cytopia;
- being a material supplier or customer of Cytopia;
- having served on the board of Cytopia for more than ten years; or
- having an interest or business which could or could be perceived to materially interfere with the director's ability to act in the best interests of Cytopia.

Having regard to the above criteria, the board has determined the managing director and three non-executive directors are not independent. Two non-executive directors (including the chair) are associated with substantial shareholders, and one non-executive director has held the managing director's role within the last three years.

As such, a majority of the board are not independent directors and the chair is not an independent director, which are not in accord with ASX corporate governance principles 2.1 and 2.2. However, the board considers that the individuals on the board can make and do make quality and independent judgments in the best interest of the company on all relevant issues.

Except as disclosed above, non-executive directors meet all other criteria required by the ASX Corporate Governance Council's definition of an independent director.

## ***2c. Roles of board and management***

Key functions and responsibilities of the board include:

- providing strategic guidance to the company including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, operating plans (including the annual budget) and funding plans;
- reviewing and approving major corporate initiatives including investments or divestments and fund raisings;
- overseeing and monitoring organisational performance, the achievement of the companies strategic goals and objectives and compliance with the company's code of professional ethics and conduct;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors;
- appointment or removal of the company's auditors, evaluation of auditor performance and independence;
- appointment and performance assessment of the chair, managing director, chief financial officer and company secretary;
- setting the managing director's remuneration, and non-executive remuneration within shareholder approved limits;
- ensuring there are effective management processes in place;
- approving the risk management policy, framework and risk tolerance of Cytopia, ensuring the significant risks facing the company have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place;
- ensuring appropriate reporting to shareholders; and
- enhancing and protecting the reputation of the organisation.

The board has delegated a number of these responsibilities to its committees, as detailed in section 3 of this corporate governance statement.

The board has delegated to management responsibility for:

- developing and implementing corporate strategy;
- developing and day to day management of business plans, operating plans (including the annual budget) and funding plans;
- establishing, overseeing, reviewing and maintaining Cytopia's risk management framework; and
- keeping the board and market fully informed about material developments

## ***2d. Selection and role of the chair***

The current chair, Mr Robert Watson, is a non-executive director appointed by the board in June 2003, and elected chair in November 2004. The board has determined Mr Watson is not an independent director by virtue of his associated substantial shareholdings.

The appointment of a non-independent chair is not in accordance with the ASX corporate governance principle 2.2. However, as the role of chair and managing director are not exercised by the same individual, the board considers that the chair is able, and does bring quality and independent judgment to all relevant issues falling within the scope of the role of the chair.

The role of the chair includes:

- leading the board of directors of Cytopia
  - ensuring that its activities are organised and efficiently conducted
  - ensuring that directors are properly briefed for meetings and in all matters relevant to their roles and responsibilities

- ensuring the board meets on regular intervals and that minutes of meetings accurately record decisions taken
- guiding the agenda and conduct of all board meetings
- reviewing the performance of non-executive directors;

### ***2e. Meetings and conduct***

The chair and managing director establish the board timetable and meeting agendas throughout the year. All directors have the opportunity to view meeting materials in advance. Each non-executive director is expected to spend at least 24 days a year preparing for, and attending board and committee meetings and associated activities. Members of executive management are regularly invited to attend board meetings, or part thereof.

The managing director and chief financial officer are responsible for implementing the company's corporate strategies, funding and operating plans and company policies. Both report directly to the board through the chair.

The audit and risk committee meet with the company's auditors without executive management being present at least once a year or as required.

Board and committee meetings attended by directors for each financial year can be found in the Director's report of the relevant year's Annual report.

### ***2f. Conflicts of interest***

The board has adopted a procedure to ensure that conflicts and potential conflicts of interest are disclosed to the board. A director is required to disclose any actual or potential conflict of interest on appointment as a director, and to keep these disclosures up to date. Any changes to director's interests are disclosed to the ASX.

In accordance with board policy, any director with a material personal interest in a matter being considered by the board, must declare their interest and is precluded from participating in discussions or decision making on such dealings.

### ***2g. Appointment of directors and terms of office***

The company's constitution specifies that all directors, with the exception of the managing director, must retire from office no later than the third annual general meeting following their last election. The constitution also states that one-third of its directors, excluding the managing director, must retire each year. Where eligible, a director may stand for re-election.

The directors may at any time appoint a person either to fill a casual vacancy or as an addition to the existing directors. Any person so appointed may hold office only until the next following annual general meeting and shall then be eligible for re-election.

New directors are provided with a letter of appointment setting out their responsibilities, duties, rights and the terms and conditions of employment. All directors are provided with the company's corporate governance policy, code of professional ethics and conduct, policy regarding securities trading, policy regarding corporate reporting and communication, policy regarding risk management, and all board committee charters.

## ***2h. Company secretary***

This position is responsible for:

- providing advice to directors and officers in relation to Cytopia’s constitution, the requirements of the Corporation’s Act, and the ASX listing rules;
- Advising the board and individual directors on corporate governance principles and assisting in the implementation of corporate governance programs;
- Carrying out the instructions of the board, assisting in the implementation of corporate strategies and giving effect to the board’s decisions; and
- Functional responsibility for the management of compliance and company secretarial functions of Cytopia.

## ***2i. Board access to information and advice***

All directors regularly receive detailed financial and operational information from executive management to enable them to carry out their duties, and have unrestricted access to company records. Each director enters into a “Deed of Indemnity and Access” with Cytopia to ensure access to company documents for seven years after retirement from the board.

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 chair is required, but this may not be unreasonably withheld.

## **3. BOARD COMMITTEES**

### ***3a. Establishment and membership***

The board has established three committees to assist in the execution of its duties. The committees and their membership as of the issue date of this statement are set out in the table below:

	<b>Audit and Risk committee</b>	<b>Nomination committee</b>	<b>Remuneration committee</b>
John Hasker (independent non-executive)	●	●	●
Kevin Healey (non-executive)	●	●	●
Roderick Lyle (independent non-executive)	● <b>Chair</b>	●	●
Andrew Macdonald (executive)		●	
Mark Rowsthorn (non-executive)	●	●	●
Geoffrey Vaughan (independent non-executive)	●	●	●
Robert Watson (non-executive)	●	● <b>Chair</b>	● <b>Chair</b>

Each of these committees has its own written charter setting out the authority delegated to it by the board, its composition and membership requirements and the manner in which the committee is to operate. These charters are available on the company website. All matters determined by committees are submitted to the full board as recommendations for board decisions.

### ***3b. Committee Procedures***

All committees meet at any time considered necessary, with the audit and remuneration committees meeting not less than twice a year, and the nomination committee meeting at least annually. Each committee is entitled to the resources and information it requires, including access to employees and advisors. Senior executives may be invited to attend committee meetings as necessary. All directors receive all committee papers and can attend all committee meetings.

Following each committee meeting, generally at the next board meeting, the board is given a verbal report by each committee chair, and all committee minutes are tabled at board meetings.

The performance of each committee is reviewed as part of the board's performance review, and the performance of each committee member is evaluated as part of the performance review of each director.

### ***3c. Audit and Risk committee***

The audit and risk committee consists of six non-executive directors, three of whom are independent. The managing director and chief financial officer attend audit committee meetings as invitees.

Details of non-executive directors' qualifications, experience and attendance at audit committee meetings are set out in the directors' report of the most recent Annual Report.

As the audit and risk committee is made up of all non-executive directors, a majority are not independent, as required by ASX corporate governance principle 4.3. In a further departure from principle 4.3, whilst all members are financially literate and some members have an understanding of the industry in which the company operates, the committee does not include a member who has financial expertise. However, the board considers that the individuals on the committee can make and do make quality and independent judgments in the best interest of the company on all relevant issues, and that the existing membership is appropriate for the effective and efficient operation of the committee.

The main functions of the audit and risk committee, as delegated by the board, are to ensure:

- effective management of financial risks
- reliable management and financial reporting
- compliance with laws and regulations
- maintenance of an effective and efficient audit
- oversight of effective risk management systems

In addition the committee is responsible for supervising any special investigations (including any breaches of governance policies) as directed by the board. It reviews and monitors related party transactions and assesses their propriety.

The audit and risk committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party, and obtain external legal or other independent professional advice.

#### Management of financial risks

The committee assists the board in reviewing the effectiveness of the company's internal control environment covering the effectiveness and efficiency of operations and reliability of financial reporting. It must be constantly aware of the current areas of greatest financial risks and ensure management is effectively managing those risks.

#### Integrity of financial reporting

The audit and risk committee reviews the annual and half-year financial reports and all other financial information published by the company or released to the market. It provides assurance that the board is receiving adequate, up to date and reliable information, and that the accounting policies and practices applied by management are consistent and comply with applicable regulations and standards.

In fulfilling its responsibilities the committee receives regular reports from management and external auditors. It expects to meet with the external auditors at least twice a year or more frequently if necessary. The external auditors have a clear line of direct communication at any time with executive directors, the chair of the audit committee, and the chair of the board.

The managing director and chief financial officer are required 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 consolidated entity's financial condition, operational results and that they are in accordance with relevant accounting standards. The audit committee reviews the processes the managing director and chief financial officer have in place to support their certifications and representations to the board.

#### Compliance with regulatory requirements

The audit and risk committee monitors compliance with the *Corporations Act 2001* and any matters outstanding with auditors, Australian Stock Exchange, Australian Taxation Office, Australian Securities and Investments Commission, Pooled Development Fund Board and other regulatory requirements and applicable law.

#### Effective and efficient audit

The audit and risk committee is responsible for making recommendations to the board for the appointment of internal (if any) and external auditors, determining their remuneration, reviewing the terms of their engagement and independence and assess the scope and quality of the audit.

#### Risk management systems

The committee is responsible for reviewing and approving the company's risk management policy and framework. It oversees the implementation by management of risk management systems and reviews the effectiveness of these systems.

### ***3d. Nomination committee***

The nomination committee consists of the chair and managing director and at least one other non-executive director nominated by them. Currently all five other non-executive directors are on the nomination committee.

Details of non-executive directors' qualifications, experience and attendance at nomination committee meetings are set out in the directors' report.

The primary function of the committee is performing review procedures to assist the board in fulfilling its oversight function by ensuring suitable board composition and appointments.

The committee, as delegated by the board, is responsible for:

- reviewing the membership of the board on an annual basis, having regard to present and future needs of the company;
- making recommendations on board composition and appointments;
- proposing candidates for the board and overseeing board succession;
- reviewing the independence of directors; and
- managing succession planning, including the implementation of appropriate executive development programs.

When the need for a new director is identified, the committee selects potential candidates with appropriate skills and experience. Where necessary, advice is sought from independent consultants. The full board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the company.

### ***3e. Remuneration committee***

The remuneration committee consists of the six non-executive directors.

Details of non-executive directors' qualifications, experience and attendance at remuneration committee meetings are set out in the directors' report of the most recent Annual Report.

The remuneration committee reviews remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for the managing director, chief financial officer and company secretary and non-executive directors (within shareholder approved levels).

Executive remuneration and other terms of employment are reviewed annually by the remuneration committee having regard to performance, relevant comparative information and independent expert advice where necessary. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements and performance-related bonuses. Executives are also eligible to participate in the Cytopia Ltd Directors' and Executives' Option Plan ("CLDEOP"), and the Cytopia Ltd Employee Option Plan ("CLEOP"). Information regarding CLDEOP and CLEOP is detailed in the company's directors' report and financial statements in the most recent Annual Report.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations and achieving the company's strategic objectives.

Remuneration and other terms of employment for the managing director, chief financial officer and other employees are formalised in service agreements, covering a range of matters including their duties, rights, responsibilities and entitlements.

Remuneration of non-executive directors is determined by the board within the maximum amount approved by the shareholders from time to time. Non-executive directors are also entitled to participate in the CLDEOP.

The remuneration committee is also responsible for reviewing transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and *ASX Listing Rules* and are appropriately disclosed.

Information on directors' and executives' remuneration is detailed each year in the company's directors' report and in the financial statements of the Annual Report.

#### 4. INTEGRITY OF FINANCIAL REPORTING

##### *4a. CEO/CFO assurance*

As an ASX-listed company, Cytopia prepares audited financial statements each financial year and reviewed financial statements for the half years ending 31 December.

The managing director (or equivalent) and chief financial officer (or equivalent) periodically provide formal statements 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 consolidated entity, and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control, and which implements the policies adopted by the board, and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects

##### *4b. Audit governance and independence*

The board is committed to three basic principles of audit governance:

- that Cytopia's financial reports present a true and fair view;
- that Cytopia's accounting policies are relevant and comply with applicable standards and regulations; and
- that the external auditor is independent and serves shareholder interests.

The company's policy is to appoint an external auditor that clearly demonstrates quality and independence. The board reviews annually the performance of the external auditor, taking into consideration assessment of performance, independence and value.

PricewaterhouseCoopers have been appointed external auditors since 1997. As required by the *Corporate Law Economic Reform Program Act 2004*, the responsibilities of the lead audit partner and review audit partner cannot be performed by the same people for longer than five years. The current lead audit partner assumed the role in 2005.

The audit and risk committee requires the external auditor to confirm bi-annually that they have maintained their independence, by providing to the board a declaration of independence. At least annually, the audit and risk committee meets separately with the external auditor without executive management being present.

An analysis of fees paid to the external auditor, including a breakdown of fees for non-audit services, is provided in the company's financial statements each year.

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.

## 5. MANAGING RISK

### 5a. Risk management approach

Risk management is undertaken to provide a structured and transparent approach to managing risk across the Cytopia group of companies. The *Risk management policy and framework* provides a detailed methodology for a systematic and consistent identification, assessment and management of risk across the organisation. The policy also defines reporting processes to ensure organisational exposures are managed at an appropriate level across the organisation.

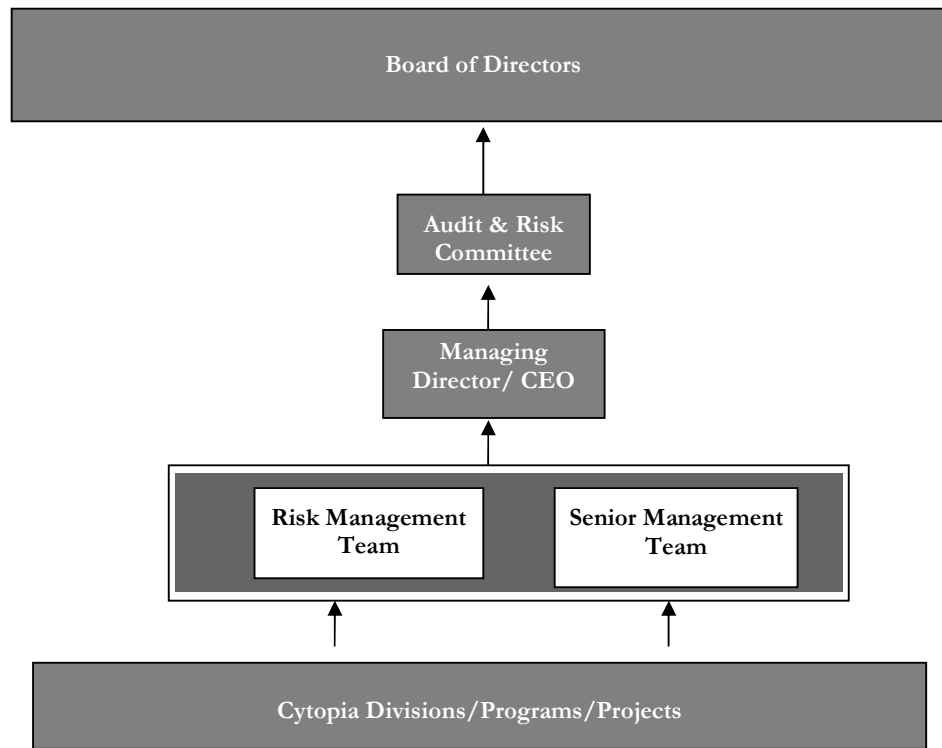
Cytopia operates in the high risk environment of pharmaceutical research and development. The company has adopted the following risk categories listed below. These categories assist risk identification, measurement and provide a basis for organising and reporting outcomes. The number of categories reflects the diversity and complexity of Cytopia's operations.

Risk Categories	Broad Definitions
<b>Corporate</b>	Risks relating to the management or maintenance of Cytopia's key assets including the company's drug assets and IP; property, plant and equipment and environment.
<b>Financial</b>	Risks associated with the development, collection, storage and reporting of financial information vital to sustaining the management of Cytopia's operations. This category also includes risks associated with budgeting, management reporting and cost containment.
<b>Business Continuity</b>	Risks relating to the planning and processes required to maintain the continuity of business activities or recovery response to a disastrous event, which may impact the effectiveness of business operations. This includes internal and external activities and processes.
<b>Human Resources</b>	Risks associated with performance management and learning & development of Cytopia's staff. It also includes risks associated with managing the company's workforce including recruitment, remuneration, retention and industrial relationship management.
<b>Legal</b>	Risks relating to non-compliance with legislation, regulations, supervision or internal policies and procedures. This also includes all regulatory issues impacting Cytopia's operations.
<b>OH&amp;S</b>	Risks associated with complying with OH&S legislation, internal policies and accreditation requirements.
<b>Investor Impact</b>	Risks associated with the company's perception amongst its shareholders, including the maintenance and growth of the company's share price.

### 5b. Roles and responsibilities

The board is ultimately responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The following structure and accountabilities have been established for the purpose of risk management within Cytopia and to ensure effective implementation of risk management processes across the group.

Structure



Accountabilities

The **audit and risk committee** is the recipient of reporting from the risk management team and ultimately, in conjunction with the board, approves the risk management policy, framework and risk tolerance of Cytopia

The managing director exercises certain authorities delegated to that position by the board and is answerable to the board in respect of key strategic issues. The managing director either delegates (to the risk management team) or takes ownership of fostering risk management across the organisation. The managing director ensures his/her direct reports performance evaluation incorporates an element relating to risk management.

The **risk management team**, in consultation with the managing director and the audit and risk committee, is responsible for establishing, overseeing, reviewing and maintaining Cytopia's risk management framework. This is achieved through the development of sufficient infrastructure to identify measure, manage and report risks.

The risk management team performs the following risk management support functions:

- Independent monitoring and reporting of operational risk activities for Cytopia;
- Reporting on the risk profiles and risk mitigation plans of Cytopia;
- Maintenance of a central risk register and loss database for recording potential and actual risk events identified throughout Cytopia;
- Recommend education and training of operational risk practices and processes; and
- Ongoing maintenance of the framework.

An internal audit is also conducted by the risk management team on an annual basis to understand the risks facing Cytopia and the status of management's actions to mitigate against these risks. The results of the audit will then be passed on to the managing director who will convey the results to the audit committee.

The **managing director's direct reports (senior management team)** have responsibility and accountability for the management of risk in their respective areas of responsibility. Specific duties include:

- Ensuring risk management processes are in place and operating effectively;
- Reporting risk events in accordance with the reporting process included in the framework;
- Developing and maintaining a register of risks for divisions/programs within their respective portfolios; and
- Implementing measures to appropriately resolve risk issues as they are identified, within their respective lines.

**All staff** across Cytopia are responsible for observing the company's policies, procedures, delegations and minimising risks to the organisation, at all times.

An **external audit** may be conducted periodically to provide an independent examination and evaluation of risk mitigation plans (policies, procedures, systems) in place to manage risk within acceptable tolerance limits. The auditor will work closely with the managing director to understand the risks facing Cytopia; avoid duplication of services with assurance providers, and will use risk management information to assist in determining the level of reliance on key systems.

#### Internal reporting

The managing director and chief financial officer are required to regularly report to the board on various matters and to adhere to and follow clearly defined guidelines. To assist in discharging its responsibility, the board requires:

- regular financial and management reporting. There is a comprehensive budgeting system with an annual budget approved by the board (revised, if necessary, mid-term). Actual results are reported against budget on a monthly basis and revised forecasts for the year are prepared regularly.
- regular functional specialty reporting. The company has identified a number of key areas which are subject to regular reporting to the board, including progress towards the achievement of critical research and commercialisation milestones, fund raising activities and external communications.

## **6. PROMOTE ETHICAL AND RESPONSIBLE BEHAVIOUR**

### ***6a. Code of conduct***

Cytopia requires its directors, employees, consultants and advisors to observe the highest standards of professional conduct and ethical behaviour in all of their activities. By maintaining such standards they enhance their own standing and increase public confidence in the management and administration of Cytopia.

The company has developed a code of professional ethics and conduct which has been fully endorsed by the board and applies to all directors, employees, consultants and advisors. The code is reviewed and updated as necessary to ensure it reflects the highest standards of integrity and professionalism.

In summary, the code requires that at all times all company personnel:

- act with honesty and integrity;
- safeguard the interests of Cytopia;
- avoid conflicts of interest;
- respect confidentiality and not misuse information;
- exercise due care and diligence;
- uphold the objectives of Cytopia; and
- comply with the letter and spirit of both the law and company policies.

The audit and risk committee is responsible for ensuring compliance with this code.

### ***6b. Securities trading***

Directors and employees are restricted under the law when dealing in the company's securities if they are in possession of information which if available to the public would have a material effect on Cytopia's share price.

To ensure compliance with the law and to ensure high standards of conduct, the company has developed a policy regarding the acquisition and disposal of the company's securities by directors, employees (and their associates) and consultants. These parties must ensure that they do not engage in short term trading of company securities and fully comply with statutory requirements and common law duties.

The trading of company securities is not permitted during blackout periods, and any material intended transaction of Cytopia's securities must be notified to the board, for approval, through the chair, in advance. Current blackout periods exist for the following periods each year:

- from 15 July until twenty four hours after release of the full year preliminary financial report to the ASX;
- from 15 January until twenty four hours after the release of the half year financial report to the ASX;
- twenty four hours subsequent to any disclosure made to ASX in accordance with the ASX Listing Rules, including those made under continuous and periodic disclosure provisions; and
- other periods as advised by the company secretary in anticipation of significant announcements.

### ***6c. Environmental health and safety***

Cytopia recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance.

The group monitors its compliance with all relevant legislation, continually assesses the impact of its operations on the environment, encourages employees to actively participate in the management of environmental and OH&S issues, and encourages the adoption of similar standards by the company's principal suppliers, contractors and distributors.

Information on compliance with significant environmental regulations is set out in the directors' report of the most recent Annual Report under the heading "Environmental Regulation".

## **7. MARKET DISCLOSURE**

Cytopia is committed to achieving the highest standards of market disclosure, accordingly, the board recognises the importance of timely and balanced disclosure of all material matters concerning the company. The company maintains a corporate reporting and communications policy that 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. These policies and procedures are available on the company's website.

The managing director and chief financial officer have been delegated responsibility by the board for communications with the ASX. This role includes responsibility for administering the policy, ensuring compliance with the continuous disclosure requirements detailed in the ASX listing rules, and overseeing and co-ordinating information disclosure to ASX, analysts, brokers, shareholders, the media and the public.

All information once disclosed to the ASX is posted on the company's website ([www.cytopia.com.au](http://www.cytopia.com.au)) as soon as possible. Material used by the managing director or chief financial officer in presentations to shareholders, analysts, brokers and the media is released to ASX and posted on the company's website.

## 8. SHAREHOLDER COMMUNICATIONS

Cytopia is committed to ensuring all shareholders have equal access to comprehensive and timely information. The corporate communications and reporting policy includes arrangements the company has in place to promote communications with shareholders and encourage effective participation at general meetings in order to increase their understanding of the company's strategy and goals. All shareholders receive a copy of the company's annual report and have access via the ASX or the company's website to its half yearly reports. In addition, the company periodically sends shareholders, a newsletter which is designed to keep them and the investment community updated on the latest developments in Cytopia's business.

The company also provides opportunity for shareholders and interested parties to participate through electronic means. All recent company announcements, media briefings, details of company meetings, press releases, financial reports and other information about the company generally are available on the company's website.

The website also includes a feedback mechanism and an option for shareholders and other parties to register their email address for direct email updates of company matters.

## 9. PRIVACY STATEMENT AND POLICY

The Privacy Act regulates the way organisations collect, use, keep, secure and disclose personal information. It gives individuals the right to know what information an organisation holds about them and a right to correct that information if it is wrong. It also allows individuals greater control over the way their personal information is handled.

The company believes that privacy is important and is committed to protecting private information.

The information collected by the company predominantly includes contact details and various pieces of information required by the company's share registry, Link Market Services, regulatory bodies such as the Australian Stock Exchange Ltd (ASX); ASX Settlement and Transfer Corporation Pty Ltd under the SCH Business Rules; the Australian Securities and Investments Commission; and the Australian Taxation Office (when specifically requested by parties) ("Private Information").

Private Information is also supplied to a limited number of authorised organisations involved in assisting the company in order to provide the services detailed below. Cytopia Ltd does not provide Private Information to any other third parties unless, and only to the extent, required by law.

The Private Information enables the company:

- ▶ to assist in the administration of its corporate registers
- ▶ to provide information on it and its investee companies via newsletters, media releases and other corporate documentation.

Private Information is stored securely in databases on protected computer equipment, accessible only by authorised staff, and is kept on file until it is outdated or no longer required, after which time it is destroyed permanently.

To access or update your Private Information, please contact the company either on telephone (03) 9522 6900, facsimile (03) 9510 9292 or via email [cytopia@cytopia.com.au](mailto:cytopia@cytopia.com.au) or Link Market Services on telephone number (02) 8280 7111, facsimile (02) 9287 0303 or via email [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au).

Cytopia emails various parties that have contacted it, with information including company announcements and newsletters. Such electronic communications allow the recipients to "unsubscribe". If recipients choose to unsubscribe, further electronic communications from the company will cease.

10. ASXCGC BEST PRACTICE RECOMMENDATIONS - COMPLIANCE TABLE

Best Practice Recommendations	Reference	Compliance
<b>Principle 1: Lay solid foundations for management and oversight</b>		
1.1 Formalise and disclose the functions reserved to the board and those delegated to management	2c	✓
<b>Principle 2: Structure the Board to add value</b>		
2.1 A majority of the board should be independent directors	2a, 2b	✗
2.2 The chairperson should be an independent director.	2d	✗
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.	2d	✓
2.4 The board should establish a nomination committee.	3d	✓
2.5 Provide the information indicated in Guide to reporting on Principle 2.	2b, 2i, 3a, 3d, Directors' report	✓
<b>Principle 3: Promote ethical and responsible decision-making</b>		
3.1 Establish a code of conduct to guide the 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.	6a	✓
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.	6b	✓
3.3 Provide the information indicated in Guide to reporting on Principle 3.	6a, 6b	✓
<b>Principle 4: Safeguard integrity in financial reporting</b>		
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.	4a	✓
4.2 The board should establish an audit committee.	3c	✓
4.3 Structure 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.	3c	✓ ✗ ✓ ✓
4.4 The audit committee should have a formal charter.	3c	✓
4.5 Provide the information indicated in Guide to reporting on Principle 4.	3a, 3c, 4b and Directors' report	✓
<b>Principle 5: Make timely and balanced disclosure</b>		
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance.	7	✓
5.2 Provide the information indicated in Guide to reporting on Principle 5.	7	✓

Best Practice Recommendations		Reference	Compliance
<b>Principle 6: Respect the rights of shareholders</b>			
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	7	✓
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.	4b	✓
<b>Principle 7: Recognise and manage risk</b>			
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	3c, 5a, 5b	✓
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:	4a	✓
	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.		
7.3	Provide the information indicated in Guide to reporting on Principle 7.	3b, 3c, 5a, 5b	✓
<b>Principle 8: Encourage enhanced performance</b>			
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	3b, 3e, and Remuneration report	✓
<b>Principle 9: Remunerate fairly and responsibly</b>			
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand <ul style="list-style-type: none"> <li>(i) the costs and benefits of those policies, and</li> <li>(ii) the link between remuneration paid to directors and key executives and corporate performance.</li> </ul>	Remuneration report	✓
9.2	The board should establish a remuneration committee.	3e	✓
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Remuneration report	✓
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders: <ul style="list-style-type: none"> <li>• Cytopia Ltd Directors and Executive Option Plan (qualified compliance<sup>1</sup>)</li> <li>• Cytopia Ltd Employee Option Plan (approved by shareholders June 2004)</li> <li>• Chair Options (approved by Shareholders November 2004)</li> </ul>	Remuneration report	✓ ✓ ✓
9.5	Provide the information indicated in Guide to reporting on Principle 9.	3a, 3e, and Directors' report	✓
<b>Principle 10: Recognise the legitimate interests of stakeholders</b>			
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	6a	✓

<sup>1</sup> The Cytopia Ltd Directors and Executive Option Plan (CLDEOP) was introduced prior to the release of the ASXCGC's best practice recommendations. As the plan did not require shareholder approval under the Corporations Act and ASX Listing Rules, they were not put to shareholders for approval. All issues of options to executives under the plan have been approved by shareholders and disclosed in each subsequent Annual Report. No issues have been made under CLDEOP since the financial year ending 30 June 2001.