

CORPORATE GOVERNANCE STATEMENT

Healthzone Limited (the Company) is committed to implementing the highest possible standards of corporate governance and ensures, wherever possible, that its practices are consistent with the Second Edition of the Australian Securities Exchange (ASX) Corporate Governance Council's Principles and Recommendations

Each of the eight principles are listed in turn. In certain circumstances, due to the size and stage of development of the Company and its operations, it may not be practicable or necessary to implement the ASX Principles in their entirety. In such instances, the Company will identify the areas of divergence. The Corporate Governance Statement, policies and Charters are published on the Company's website: <http://www.healthzone.com.au>.

Principle 1

Lay solid foundations for management and oversight by the Board

The Board's responsibilities are encompassed in a charter which is published on <http://www.healthzone.com.au> (the Company's website). The Board is responsible for, and has the authority to determine, all matters relating to the strategic direction, policies, practices, establishing goals for management and the operation of the Company. Without intending to limit this general role of the Board, the specific functions and responsibilities of the Board include:

- (1) oversight of the Company, including its control and accountability systems;
- (2) appointing and removing the CEO (this role is undertaken by the chairman) for the ongoing management task of developing and implementing suitable strategies consistent with the Company's policies and strategic direction, including approving remuneration of the CEO and remuneration policy and succession plans for the CEO;
- (3) ratifying the appointment and, where appropriate, the removal of the CFO (or equivalent) and the Company Secretary;
- (4) reviewing and determining the strategic direction and policies of the Company, the allocation of resources, planning for the future and succession planning;
- (5) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- (6) monitoring executives performance and implementation of strategy and ensuring appropriate resources are available;
- (7) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- (8) continuously monitoring and overseeing the Company's financial position; and
- (9) approving and monitoring financial and other reporting.

Key responsibilities of the Board include the overseeing of the strategic direction of the Company, determining its policies and objectives and monitoring management performance. The Board adopts a two-year business plan and a 12 month operating plan for the Company. Financial results and general performance are closely monitored against the operating plan objectives.

The responsibilities delegated by the Board to the Company's management, as set out in the Company's Statement of Delegated Authority includes managing the day-to-day operations of the Company and Consolidated entities. The Statement of Delegated Authority has been posted to the Company's website (<http://www.healthzone.com.au>).

The CEO and CFO have service contracts setting out their duties, responsibilities, and conditions of service and termination entitlements. Any new Directors appointed will receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Executives are subject to a formal performance review process on an annual basis. The Audit & Remuneration Committee reviews the performance of senior executives and the Board review the performance of the Chief Executive Officer and Chief Financial Officer against clear performance objectives. Principal and secondary objectives for the financial year have been established which are evaluated against and includes monthly monitoring of performance. A performance evaluation has taken place in the year.

Principle 2

Structure of the Board to add value

The Board determines the Board's size and composition, subject to limits imposed by the Company's Constitution. The Constitution provides for a minimum of three Directors and a maximum of ten. At this time the Board comprises of three executive directors., A director is deemed to be independent if he or she is a non-executive director and:

- (1) is not a substantial shareholder;
- (2) has not been employed in an executive capacity in the Company in the last three years;
- (3) has not acted as a material consultant to the Company in the last three years;
- (4) is not a material supplier or customer of the Company;
- (5) has no material contractual relationship with the Company;
- (6) has not served on the Board for a period which could materially interfere with his or her ability to act in the best interests of the Company; and
- (7) is free from any interest which could materially interfere with his or her ability to act in the best interests of the Company.

The test of independence for directors is set out in detail under section 4 of the Board Charter, which has been posted on the website of the Company: <http://www.healthzone.com.au>. Materiality thresholds referred to above are assessed on a case-by-case basis.

Peter Roach MAICD **Executive Chairman, Age 48.**

Peter has more than 20 years experience in the Australian health food industry. As former Chairman and Marketing Director of Go Vita Distributors Pty Limited, Peter administered a national health food distribution and retail operation that today successfully operates with more than 100 retail stores. As former Managing Director of DVC Discount Vitamin Centres, Peter developed a retail chain of health food.

Interest in shares and options are 1,002,500 ordinary shares and nil options. Measured against the independence criteria adopted by the Company, Mr. Roach is not considered an independent director.

Michael Ge Wu, B.Com M.Com MAICD **Executive Director, Age 29.**

Michael has successfully implemented the Company's export, logistics and business development initiatives; Michael has also been responsible for product development, contract manufacturing, registration and compliance of the Company's products. In doing so, Michael has administered research and development activities, development of new products and has actively been involved in planning and execution of Healthzone's business acquisition activities. Michael holds a Master of Commerce Degree, a Bachelor of Commerce Degree and is a member of the Australian Institute of Company Directors.

Interest in shares and options are 9, 556,825 ordinary shares and nil options. Measured against the independence criteria adopted by the Company, Mr. Wu is not considered an independent director.

Michael Jenkins, B.Com LLB (Hons) **Executive Director, Age 53.**

Michael has more than 20 years of experience in financial administration of international, public and private companies, including strategic planning, mergers and acquisitions, human resources, systems implementation, treasury, fund raising and shareholder relations. He is former Chief Financial Officer and Company Secretary of Freedom Nutritional Products Limited, MXL Limited and former Finance Director of Kelly Services (Australia) Limited and Tremco Asia Pacific.

Interest in shares and options are 76,600 ordinary shares and nil options. Measured against the independence criteria adopted by the Company, Mr. Jenkins is not considered an independent director.

Considering that all incumbent directors bring an independent judgement to bear in Board deliberations, the Company believes that at this stage of development and operations, the above mix of directors is appropriate.

In order to facilitate independent judgement in decision making each Director may seek independent professional advice at the Company's expense. If advice is sought by the Chairman, he must obtain Board approval if the fees for such advice exceed \$50,000 (exclusive of GST), such approval not to be unreasonably withheld. Where advice is sought by the other directors, prior written approval by the Chairman is required but approval will not be unreasonably withheld. If the Chairman refuses to give approval, the matter must be referred to the Board. All directors are made aware of the professional advice sought and obtained.

The Audit & Remuneration Committee of the Board comprises two directors - Mr Wu is the Committee Chairman. The Committee Charter which has been posted on the website of the Company: <http://www.healthzone.com.au> details out the process and timing for re-election of directors. The Board's policy for nomination and appointment of directors also forms part of the Charter.

The Company Constitution states that at each Annual General Meeting (AGM) one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the nearest number greater than one-third, shall retire from office. A retiring Director shall be eligible for re-election. No Director (other than if there is Managing Director or, if there is more than one Managing Director, one of those Managing Directors only) may hold office without re-election past the third annual general meeting following their appointment or three years, whichever is longer or, in the case of a Director appointed by the Directors as an additional Director or to fill a casual vacancy, past the next annual general meeting of the company. Any Director appointed by the Board since the last AGM must stand for election at the next AGM.

The Committee is responsible for ensuring that the Board is of a size and composition that allows for:

- (1) decisions to be made expediently;
- (2) a range of different perspectives to be put forward regarding issues before the Board;
- (3) a range of different skills to be brought to Board deliberations; and
- (4) Board decisions to be made in the best interests of the Company as a whole rather than of individual shareholders or interest groups.

The Committee's functions are to review and report to the Board on:

- Remuneration policy for the entire consolidated entity (including executive officers and non-executive directors);
- identifying nominees for directorships and other key executive appointments;
- assessing director competencies;
- evaluating the Board's performance annually; and
- remuneration policies and practices.

The Committee is responsible for the:

- (1) evaluation and review of the performance of the Board (excluding the Chairman);
- (2) evaluation and review of the performance of individual directors;
- (3) review of and making of recommendations on the size and structure of the Board; and
- (4) review of the effectiveness and programme of Board meetings.

The evaluation and review of the performance of the Chairman is undertaken by all Board members. The Committee has completed evaluating the performance of the Board, Committees and individual directors during the year. This was undertaken by way of an informal review by the Audit & Remuneration Committee. The next performance evaluation will take place within the year

The Committee meets as frequently as required and at least twice a year. The quorum for such meetings is 2 members. Details of the Committee members' attendance at Committee meetings are set out in the Directors' Report of the group's Annual Report located on the Company's website: <http://www.healthzone.com.au>.

Subject to normal privacy requirements, each Director has the right of access to all of the Company's records, information and senior executives. They receive regular detailed reports on financial and operational aspects of the Company's business and may request elaboration or explanation of these reports at any time. New Directors undergo an induction process in which they are given a full briefing

of the operations of the Company. Where possible, this includes meetings with key executives, tours of the operating sites (if practicable), provision of induction package containing key corporate information and presentations. Directors and executives are encouraged to broaden their knowledge of the Company's business and to keep abreast of developments in business more generally by attendance at relevant courses, seminars, conferences, etc. The Company meets expenses involved in such activities.

Principle 3

Promote ethical and responsible decision-making

The directors acknowledge the need for and continued maintenance of a high standard of corporate governance practices and ethical conduct by all directors and employees. In maintaining its ethical standards, the Company will:

- (1) behave with integrity in all its dealings with customers, shareholders, employees, suppliers, business partners and the community;
- (2) ensure its actions comply with applicable laws and regulations;
- (3) not engage in any activity that could be construed to involve an improper inducement;
- (4) achieve a working environment where:
 - (i) equal opportunity is rigorously practised;
 - (ii) harassment and other offensive forms of behaviour are not tolerated;
 - (iii) confidentiality of commercially sensitive information is protected; and
 - (iv) employees are encouraged to discuss concerns and ethical behaviour with directors and senior executives.

The Board, senior executives and all employees of the Company are committed to implementing this Code of Ethics and each individual is accountable for such compliance. A copy of the Code is made available to Directors, employees, contractors and relevant personnel on the Company's website: <http://www.healthzone.com.au>.

The Chairman is responsible for establishing, implementing and reviewing the effectiveness of the Code of Ethics as well as for overseeing that all of the Company's employees and contractors understand, and act in accordance with the Code.

The Board has implemented a range of procedures designed to oversee that the Company complies with the law and achieves high ethical standards in identifying and resolving or managing conflicts of interest. All directors must advise the Chairman of all business dealings with the Company.

As a part of active promotion of ethical behaviour, any behaviour that does not comply with the Code must be duly reported. Protection will be provided for those who report violations in good faith.

The Company has also implemented Securities Trading Policies for Directors and Executives. The policies generally allow directors, and executives to deal in the Company's securities other than in the following periods:

- (1) within the period of one month prior to the announcement of interim and final results of the Company; and
- (2) within the period of two weeks prior to the Annual General Meeting,

but only after waiting at least two hours after the relevant release so that the market has time to absorb the relevant information. Further details of the policies are available on the website of the Company: <http://www.healthzone.com.au>.

Principle 4

Safeguard integrity in financial reporting

The Board has established the Audit & Remuneration Committee comprising two directors. Every member of the Committee must be able to read and understand financial statements with experience of financial and accounting matters. Currently, the Committee comprises of Mr Wu (Chairman) and Mr P. Roach. The Chairman of the Committee is not Chairman of the Board.

The Finance Director and external audit partner attend Committee meetings at the discretion of the Committee.

The external auditors have a direct line of communication at any time to either the Chairman of the Audit & Remuneration Committee or the Chairman of the Board.

The Audit, Risk and Compliance Committee is responsible for:

- (1) reviewing and reporting to the Board on the half yearly and annual reports and financial statements of the Company and consolidated entities;
- (2) nominating the external auditor and reviewing the adequacy, scope and quality of the annual statutory audit and half yearly statutory review;
- (3) reviewing the effectiveness of the Company's and consolidated entity's internal control systems;
- (4) monitoring and reviewing the reliability of financial reporting;
- (5) monitoring and reviewing the compliance of the Company and Consolidated entity's with applicable laws and regulations;
- (6) monitoring the Australian Accounting Standards and Urgent Issues Group consensus views;
- (7) monitoring financial risks and exposure of the Company and consolidated entity's assets;
- (8) monitoring the risk management policy and plans;
- (9) reviewing the Company's Occupational Health and Safety obligations and the Company's compliance;
- (10) reviewing the Company's and consolidated entity's insurance policies and coverage; and
- (11) overseeing the independence of external auditors and annually reviewing the Company's policy on maintaining the independence of external auditor,

The Committee has a formal Charter which is posted on the website of the Company <http://www.healthzone.com.au>. The Committee meets as frequently as required and at least twice a year. The quorum for such meetings is 2 members. Details of the Committee members' attendance at Committee meetings are set out in the Directors' Report of the Group's Annual Report. The minutes of each Committee meeting are reviewed at the subsequent Board meeting and signed as an accurate record of proceedings. At the subsequent Board meeting the Chairman of the Committee reports on the Committee's conclusions and recommendations.

The candidates for the position of external auditor must be able to demonstrate complete independence from the Company and an ability to maintain independence throughout the engagement period. The external auditors have advised, after consultation with the Company, that the audit engagement partner shall be rotated every five years. The Board may select an external auditor based the criteria relevant to the business of the Company such as experience in the industry in which the Company operates, references, costs, and any other matters deemed relevant by the Board.

Principle 5

Make timely and balanced disclosure

The purpose of the Continuous Disclosure Policy is to ensure that there are mechanisms in place to provide all investors with equal and timely access to material information concerning the Company. Such information must be presented in a clear and balanced way so as not to omit any material information.

This Policy is designed to ensure that the Company meets its continuous disclosure obligations under the ASX Listing Rules and has been posted to the website of the Company.

Type of information that needs to be disclosed

Listing Rule 3.1 states that any information that a reasonable person would consider to have a material effect on the value of the Company securities must be disclosed. Examples of such information include a change in revenue, asset values or significant transactions.

Directors receive copies of all announcements immediately after notification to the ASX. All announcements are posted to the Company's website. A report is submitted to each Board meeting of

disclosures to the ASX since last meeting with the Disclosure File available for review.

Disclosure Officer

The Board has appointed the Company Secretary to act as the Disclosure Officer, responsible for communications with the ASX. The Company Secretary in discussion with the Company Chairman decides what information must be disclosed. The Disclosure Officer holds the primary responsibility for ensuring that the Company complies with its disclosure obligations. In addition, Directors, employees or consultants are all responsible for reporting price sensitive information that is not generally available to the Disclosure Officer.

To enhance clarity and balance of reporting and to enable investors to make an informed assessment of the Company's performance, financial results are accompanied by a commentary.

Principle 6 Respect the rights of shareholders

The Company aims to keep shareholders informed of the Company's performance in an ongoing manner. Apart from information provided pursuant to the Company's legal and ASX Listing Rules obligations regarding continuous disclosure of information, the Company also communicates with shareholders through the:

- (1) Annual Report which is available to all shareholders. The Annual Report includes relevant information about the Company's operations and performance;
- (2) Invitation to the annual general meeting and all accompanying papers;
- (3) The Company's website;
- (4) Reports to the ASX and the press;
- (5) Half yearly profit announcements; and
- (6) Information and presentations to analysts (which are released to the ASX).

The Annual General Meeting provides an important opportunity for shareholders to express their views and respond to initiatives being proposed by the Board.

The Company also requests that the external auditor attend the Annual General Meeting and be available to answer shareholder questions about the audit and the preparation and content of the audit reports.

Principle 7 Recognise and manage risk.

Risk oversight and management policies

The Company has recently adopted a Risk Management Policy, which has been posted to its website. The Policy covers the areas of oversight, risk management, risk profile, compliance and control and assessment of effectiveness. The Audit & Remuneration Committee (details and composition of which have been set out earlier) is responsible for providing the Board with advice and recommendations regarding the ongoing development of the Policy

Risk management and risk profile

The Committee is responsible for:

- (1) providing the Board with advice and recommendations regarding the Company's
 - (i) risk management system; and
 - (ii) risk profile that describes the material risks (including financial and non-financial risks).
- (2) reviewing the effectiveness of the Company's implementation of the risk management system at least once a year;
- (3) regularly reviewing and updating the Company's risk profile; and
- (4) ensuring that the appropriate executives have established and implemented a system for identifying, assessing, monitoring and managing risk throughout the organisation. The system is to include the Company's internal compliance and control systems.

Executives provide the Committee and Board with regular reports on operational, financial, regulatory

and commercial matters within their business divisions. This ensures Management accountability. Management is responsible for designing and implementing a risk management and internal control system to manage the Company's material business risks. Management identifies and reviews the major risks impacting each area of the business and develops strategies to effectively mitigate these risks

As required by the ASX Principles, Management has reported to the Board on the effectiveness of the management of its material business risks. The ultimate responsibility for risk oversight and management rests with the Board.

Due to the size and scale of operations of the Company, there is no separate internal audit function.

Executive Director and CFO assurances

As part of the structure of financial review and authorisation, both the Chairman, Finance Director and Executive Directors are required to provide written assurances that the financial reports present a true and fair view of the Company's and consolidated entity's financial position in all material aspects and that the integrity of the financial statements is founded on a system of risk management and internal compliance and control which implements the policies adopted by the Board and is operating efficiently and effectively in all material aspects in relation to financial reporting risks. As part of internal management reporting policy relevant senior personnel provide written assurances regarding the integrity of the financial reports to support the Chairman, Finance Director and Executive Directors assurances to the board.

Principle 8

Remunerate fairly and responsibly.

The Board has established the Audit & Remuneration Committee to consider and report on, among other matters, remuneration policies and packages applicable to Board members and to senior managers of the Company. The Committee is responsible for ensuring that any equity-based executive or non-executive director remuneration is made in accordance with any thresholds approved by shareholders. The composition and details of the Committee have been detailed earlier in this Statement.

In respect of remuneration issues, the responsibilities of the Committee include determining, evaluating and reporting to the Board with respect to:

- (1) executive remuneration and incentive policies, including ensuring that the remuneration policies and practices of the Company are consistent with its strategic goals and human resource objectives;
- (2) the Company's recruitment, retention and termination policies and procedures for executives;
- (3) incentive schemes;
- (4) superannuation arrangements; and
- (5) the remuneration framework for directors.

The Committee operates independently of the senior management of the Company in its recommendations to the Board in relation to:

- (1) reviewing on an annual basis the performance and salary of the executives including any Executive and Employee Share Option Plan participation;
- (2) the remuneration packages and other terms and conditions of appointment and continuing employment of senior executives; and
- (3) reviewing non-executive Directors' remuneration within the maximum amount approved by shareholders.

The Board believes that directors are properly rewarded through payment of a fee which is reviewed annually in the light of market conditions and has regard to the responsibilities placed on the Directors by the legal and financial framework within which they act.

The Committee's main functions include:

- (1) Conditions of service and remuneration of the Chairman and his direct reports;
- (2) Performance of the executives;
- (3) Ensure that the remuneration policy achieves both a level and composition of remuneration that

is both competitive and reasonable. Remuneration policies are designed to attract and maintain talented and motivated directors and employees as well as raising the level of performance of the Company.

- (4) Recommendation to the Board, which has the discretion to reward eligible employees with the payment of bonuses, share options and other incentive payments. These incentive payments are designed to link reward to performance and are determined by both financial and non-financial imperatives.

Non-executive Directors receive fees determined by the Board, but within the aggregate limit approved by Shareholders at a General Meeting.

The structure of remuneration for Non-Executive Directors and Executive Directors is different. As explained in the Remuneration Report, Executive Directors and key management personnel receive fixed remuneration and employer contributions to superannuation funds. The Securities Trading Policy for Directors and other executives restricts entering into transactions with securities in associated products which operate to limit the economic risk of any unvested entitlements under any equity based remuneration scheme offered by the Company. Remuneration packages of Non-Executive directors are fee based. Non-executive directors do not participate in any bonus payments or any retirement benefits other than statutory superannuation.