

GOVERNANCE CODE

CYNOTECH HOLDINGS LIMITED

In November 2002 the Securities Commission, following a perceived need to strengthen confidence in New Zealand Capital Markets published a discussion document entitled "A Statement on Certain Aspects of Corporate Governance and Financial Reporting"

Following this NZX included in its NZSX Listing Rules their version of Corporate Best practice. The NZX document differs significantly from the Securities Commission discussion paper. As the process of detailing Corporate Best Practice evolves and develops NZSX Issuers are now required to report their own Corporate Practices and Policies, and where they differ from the NZX's proposal.

Cynotech Holdings Corporate Governance Best Practice more closely resembles the Securities Commission discussion document and the principals therein.

This document details Cynotech Holdings Corporate Governance practices, and details as required where our policies differ from those published by NZX.

Disclosure of Information

It is Cynotech's policy to fully and fairly disclose information to Investors, which is deemed to be a tenant of Corporate best practice. This will be to the extent that competitive information and disclosing information which could be harmful to the company, will not be disclosed.

As part of our ongoing improvement in compliance, senior executives share responsibility at the Corporate management level to ensure that disclosure and compliance is effected internally to the highest standards realizable at the time, on an ongoing improving basis.

Corporate Governance

To effect the above it is important that

- Boards and Management have high ethical standards
- Directors act in the best interests of the company
- As an Issuer of Securities to the public the Board are mindful of their responsibilities to their investors
- The Board in its function in appointing Directors for subsequent election at the AGM are mindful of the competency of individuals and the competency skills required at the Board table.
- It is recognized that there needs to be a balance between Independent Directors and Executive Directors
- Cynotech Holding's Board processes are detailed in this document

Policies

- a) A Register of Directors interests in outside companies, trust and organizations is maintained, and updated bi-annually
- b) Directors are required to advise any known conflicts of interest on matters discussed at the Board table, and this is dealt with on a case by case basis

- c) Directors abstain from voting on matters directly related to issues where a Conflict of interest exists.
- d) Where Directors subsequently become involved in matters where they have a Related party Interest, this is disclosed in the Interests register.
- e) Corporate Information is to be used only for use in relation to Cynotech Holdings business. It is unethical to do otherwise. All staff and Directors are required to sign a confidentiality agreement, and further details are included in our individually signed Company Policy document.
- f) Corporate Assets may only be used with the consent of the CEO or Managing Director.

Financial Reporting and Audit

High Quality financial reporting is important to shareholders and the market at large.

To effect this

- Financial accounts are required to present accounts which to the best of managements knowledge present a true and correct record, and are accurate.
- Staff are required to prepare reports for Directors which can be released publicly ½ yearly and for the full year which Directors can release to the public.
- Directors recommend the appointment of Auditors to audit Year End accounts. ½ year accounts are not externally audited.
- Directors recognize there needs to be independence between the functions of the auditor, the Boards review of the annual and ½ year accounts and management while at the same time ensuring there is a productive and co-operative working relationship.
- The independence of the company's Auditors is disclosed in the Annual Report via an external audit report.

Policies

- a) The Company prepares the accounts in compliance with all relevant accounting standards in place from time to time notably GAAP and IFRS, and generally adopts new accounting standards and regulations as an early adopter
- b) The Company has an Audit Committee with its own Terms of Reference
- c) This committee is required to meet at least twice annually, but more frequently as required
- d) The Audit Committee is free to consult with whomever they deem necessary, and report their findings to the Board
- e) The Board has a meeting with Auditors annually.

Compliance

The Company is aware of the need to comply with the following legislative and sharemarket compliance documents

- The Securities Act 1978
- The Securities Markets Act 1988
- The Securities Transfer Act 1991
- The Companies Act 1993
- Companies Office reporting
- The Takeovers Act 1993

Financial Reporting Act 1993
The TakeOvers Code
Commerce Commission requirements and surveillance standards
The Securities Commission
NZSX Listing Rules

As a recent NZSX Issuer Cynotech Holdings acknowledges the importance of compliance with all these regulatory requirements to maintain a well informed market. We take a pragmatic approach to maintaining compliance by employing a Company Secretary and Legal Advisors where necessary to assist us to stay within regulatory requirements. At the same time there is a focus to ensure the growth of our business. Systems continue to be upgraded to assist the Company to increasingly deliver on compliance in relation to the above Acts and regulations.

As an NZSX Issuer we are required to disclose those areas where we differ from the published NZSX Appendix 16 Corporate Governance Best practice Code.

In some cases we adopt additional policies to suit our specific requirements, (notably we have established an effective Lending and Credit Committee) and in other cases we operate differently than that which is proposed by NZX.

Lending and Credit

Assessing Credit risk, and assessing the merits of individual loans is critical to the performance of the Company. Cynotech has set-up a Lending and Credit Committee consisting of the full Board who approve loans by email, or alternatively, and who also set Lending policies from time to time. The current policies are

- Loans are to be approved, or otherwise, within 48 hours.
- There needs to be unanimous approval for a loan to proceed.
- All loans over \$100,000 need Lending Committee approval.
- There is an upper limit to any one individual loan, which if it is to be exceeded needs to meet certain criteria, and to obtain Lending Committee approval.
- Budget Loans will not lend behind 1st Mortgages exceeding a certain upper limit
- All Loans over \$50,000 require specific approval from one of two Directors.
- There is an upper limit for 1st mortgages which Broadway Mortgage Custodians will not exceed without Lending Committee approval.

The following identifies what processes Cynotech follows where they differ from NZSX

- a) The Company believes that in our unique situation a structure of having a CEO, who is also Chairman is in the best interests of shareholders.
- b) The Board, being a four member Board, adopts the function an Independent Nominations Committee might adopt.
- c) Directors undertake their own training in the area of expertise they bring to the Board table. This maybe hands-on training, professional training, relevant reading or experience from other Boards.
- d) Director remuneration is promulgated by the Managing Director for review by the Board before being presented to shareholders for voting on.
- e) Directors are remunerated fully through Director fees, there being no equity based compensation plan, other than the Dividend Re-investment plan which

Cynotech consider fair as it is available equally to all shareholders on the same terms.

- f) The full board acts in dealing with all Remuneration matters with executive staff abstaining from discussions on their own salary and remuneration package, or contractual rates.
- g) Board performance is an ongoing functional peer review, with self analysis.
- h) The relationship with the independent Auditor is arms length yet close in terms of our working relationship. The Auditors meet with the Full Board annually.
- i) As a significant part of our business is a Finance company the internal audit function is managed by internal daily reconciliation. At our manufacturing business we undertake twice monthly stock-takes. We adopt a functional approach to check balances, rather than implementing Committees to achieve what staff need to do to ensure our receivables, production and accounts reconcile.

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