

CORPORATE ETHICS POLICY FOR THE DIRECTORS OF EASTERN CORPORATION LIMITED

PART 1 - DEALINGS BY DIRECTORS IN THE COMPANY EASTERN CORPORATION LIMITED

Eastern Corporation Limited (“the Company”) strongly encourages its directors and employees to become shareholders in the Company. However, when a director trades in shares of the Company it is important to ensure that these transactions do not reflect badly on either the director or the Company. Part 1 of this Corporate Ethics Policy is designed to ensure that directors do not deal in shares of the Company at inappropriate times or in inappropriate circumstances.

When buying or selling shares in the Company, directors must ensure that they do not contravene the insider trading provisions contained in Part 7.10 of the *Corporations Act 2001 (Cwlth)*. Inside information is information that is not generally available which could reasonably be expected to have a material effect on the price or value of securities of a body corporate. Information is taken to have a “material effect” on the price or value of a security if it would be likely to influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy, or sell the securities. Thus, to constitute inside information the information must be both price sensitive and not generally available.

It is readily apparent that directors of the Company in the course of carrying out their duties often possess information which would be regarded as inside information under the *Corporations Act 2001 (Cwlth)*. The following are examples of information which could be regarded as inside information:

- proposed strategic business acquisition;
- financial records not yet released to the market;
- a proposed takeover not yet announced to the market.

Where directors possess inside information, they must not engage in dealings with the securities of the Company and cannot, either directly or indirectly, communicate the inside information to other persons. Directors can be liable for insider trading if they recommend the Company’s shares to other persons while they are in possession of price sensitive information which is undisclosed to the general public. Directors should be aware that they can be liable for insider trading by communicating inside information to other persons, for example their spouse, family or friends. This liability arises notwithstanding the fact that the director has not dealt with the securities of the Company. Spouses, family or friends who learn inside information and subsequently act on it before the information becomes public can also be held liable for insider trading.

It is therefore essential that all directors avoid direct or indirect communication of price sensitive information before it enters the public domain. It is equally essential that directors refrain from trading in shares of the company whilst they possess such information.

Restrictions on Directors’ Dealings with Company Shares

As a general policy, before engaging in transactions involving the shares of the Company, a director must notify the Chairman of the intended transaction at least 24 hours beforehand. It is then a matter for the Chairman to advise other directors of the intended course of action.

The Company’s policy regarding dealings by directors in the Company’s shares is that directors should never engage in short term trading and should not enter into transactions in the following circumstances:

- When they are in possession of price sensitive information not yet released by the Company to the market; or

- For a period of twenty-one (21) days prior to release by the Company of half yearly and annual reports **or** such shorter period as may be approved of by the Board of Directors after receipt of notice of intention to buy or sell by a director to other members of the Board.
- In relation to “price sensitive information”, all directors will be conscious of the fact that as the Company is a listed company, it has an obligation under Chapter 3 of the Listing Rules to make continuous disclosure. Briefly stated, that is an obligation to advise the market as soon as events and developments occur which result in the information that a reasonable person would expect to have a material effect on the price or value of the Company’s shares.
- The obligation is not absolute and there are a number of exceptions to when “price sensitive information” need not be disclosed, which are addressed below.
- Accordingly, there will be occasions where price sensitive information is in the possession of some or all of the directors and not yet released to the market, nor required to be released.
- In relation to the half-yearly and annual reports, it is apparent that these reports will contain financial information concerning the Company. That information will be collated by the Company's auditors based on management accounts. It is a notorious fact that at some time before preparation of the audited yearly and annual reports, some or all of the directors will have access to the financial figures based on the data coming from the management accounts. That being so, that material may, in appropriate circumstances, be price sensitive information, not yet released. For example, a company may have glowing half year profit at the commencement of the half year and then find, based on its management accounts that it fell well behind or will fall well behind (as the case may be) those profit forecasts. That would classically be a case when any directors in possession of such information could not deal in the Company securities.

However, directors will generally be permitted to engage in trading (subject to due notification being given to the Chairman) at the following times:

- For a period commencing one (1) business day after the release of half yearly and annual reports to the market;
- For a period commencing one (1) business day following the release of price sensitive information to the market which allows a reasonable period of time for the information to be disseminated among members of the public; *(It is strongly recommended that at least one (1) business day be allowed on the basis that under the Corporations Act 2001 (Cwlth), directors will only be protected following disclosure to the market of price sensitive information, if that information has become generally available. The Corporations Act 2001 (Cwlth) contains no specific definition, but does indicate that information is "generally available" if it has been made known in a manner that would or would be likely to bring it to the attention of persons who commonly buy and sell shares in companies of a kind whose price or value might be affected by the information that has been released.)*
- Where the proposed acquisition of securities is under:
 - (a) a bonus issue made to all shareholders;
 - (b) a dividend reinvestment or top up plan available to all shareholders;
 - (c) an employee share plan.

Notification to ASX of Directors’ Interests

Directors must also be aware that pursuant to the provisions of the *Corporations Act 2001 (Cwlth)* they are obliged to provide the ASX with appropriate notifications of their interests in the Company.

Pursuant to section 205G of the *Corporations Act 2001 (Cwlth)*, directors must notify the ASX of their:

- (a) relevant interests in shares of the Company or of a related body corporate;

- (b) relevant interests in debentures of or prescribed interests made available by the Company or a related body corporate;
- (c) rights or options over shares in, debentures of, or prescribed interests made available by, the Company or a related body corporate;
- (d) contracts:
 - (i) to which the director is a party or under which the director is entitled to a benefit; and
 - (ii) that confer a right to call for or deliver shares in, debentures of, or prescribed interests made available by, the Company or a related body corporate.

Directors must also ensure that the above interests are notified to the ASX in accordance with Listing Rule 3.19A. This Rule requires the Company, not the particular director, to notify the ASX of the above interests.

Accordingly, the Company is to enter into an agreement with its directors under which the directors are obliged to provide the necessary information to the Company. An agreement of this nature, recognises that much of the information required by the ASX, under section 205G, is held by the directors, by virtue of their position and role within the Company. By entering into a formal agreement, the Company ensures that the directors of the Company have been notified of their disclosure obligations under the *Corporations Act 2001 (Cwlth)* and the directors authorise the Company to give the information provided by directors to ASX on their behalf and as their agent.

This Corporate Ethics Policy will serve as the formal agreement (as described above) between the Company and its directors. By consenting to this Corporate Ethics Policy, each director is acknowledging that he/she will ensure that the Company is notified of the above interests within the stated timeframes (refer below), enabling the Company to discharge its disclosure obligations owed to the ASX in accordance with Listing Rule 3.19A.

- (a) In particular, the Rule provides that where a director is appointed – the Company must notify the ASX of the above interest within five (5) business days after the appointment (the appropriate form is Appendix 3X);

Accordingly, directors will provide the following information as at the date of their appointment as a director:

- details of all securities registered in their name, including the number and class of the securities;
 - details of all securities not registered in the director's name but in which he/she has a relevant interest within the meaning of Section 9 of the Corporations Act, including the number and class of the securities, the name of the registered holder and the circumstances giving rise to the relevant interest; and
 - details of all contracts to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in, debentures of, or interests in a managed investment scheme made available by, Eastern Corporation Limited or a related body corporate, including the number and class of the shares, debentures or interests, the name of the registered holder if the shares, debentures or interests have been issued, and the nature of the director's interest under the contract.
- (b) where a change in the above interests of a director occurs – the Company must outline the change in the director's interests to the ASX no more than 5 business days after the change occurs (the appropriate form is Appendix 3Y). Directors will need to provide to the Company on an on-going basis, as soon as reasonably possible after the date of the change and, in any event, no later than three (3) business days after the date of the change:

- details of changes in securities registered in the director's name, including the following:
 - date of change
 - number and class of securities held before and after the change
 - nature of change (eg, on-market, off-market)
 - consideration paid or received in connection with the change
 - if off-market, the value of the securities the subject of the change;
 - details of changes in securities not registered in the director's name but in which he/she has a relevant interest within the meaning of Section 9 of the Corporations Act, including the following:
 - date of change
 - number and class of securities held before and after the change
 - name of the registered holder before and after the change
 - circumstances giving rise to the relevant interest
 - nature of change (eg, on-market, off-market)
 - consideration paid or received in connection with the change
 - if off-market, the value of the securities the subject of the change; and
 - details of all changes to contracts to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in, debentures of, or interests in a managed investment scheme made available by, Eastern Corporation Limited or a related body corporate, including the following:
 - date of change
 - number and class of the shares, debentures or interests to which the interest relates before and after the change
 - name of the registered holder if the shares, debentures or interests have been issued
 - nature of your interest under the contract.
- (c) where a director ceases to be a director – the Company must notify the ASX of the interests of the director at the time the director ceases to be a director, no more than five (5) business days after the director ceases to be a director (the appropriate form is Appendix 3Z). Directors must supply to the Company as soon as reasonably possible after the date of ceasing to be a director and, in any event no later than three (3) business days after the date of ceasing to be a director, the following information:
- details of all securities registered in the director's name, including the number and class of the securities;
 - details of all securities not registered in the director's name but in which he/she has a relevant interest within the meaning of Section 9 of the Corporations Act, including the number and class of the securities, the name of the registered holder and the circumstances giving rise to the relevant interest; and

- details of all contracts to which the director is a party or under which he/she is entitled to a benefit, and that confer a right to call for or deliver shares in, debentures of, or interests in a managed investment scheme made available by, Eastern Corporation Limited or a related body corporate, including the number and class of the shares, debentures or interests, the name of the registered holder if the shares, debentures or interests have been issued, and the nature of the director's interest under the contract.

Directors should also be aware of the substantial shareholder provisions contained in section 671B of the *Corporations Act 2001 (Cwlth)* which require certain notices to be served on the Company and the ASX when a shareholder is entitled to at least 5% of the issued shares in the Company and any changes of more than 1% to those holdings.

The Company's Obligation of Disclosure

As a listed entity, the Company must comply with certain continuous disclosure obligations imposed by the *Corporations Act 2001 (Cwlth)* and the ASX Listing Rules. Chapter 3 of the ASX Listing Rules requires the Company to provide the ASX with immediate notice of certain material information.

The general disclosure rule imposed on the Company is contained in clauses 3.1 and 3.1A of the ASX Listing Rules:

"3.1 Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information.

3.1A Listing Rule 3.1 does not apply to particular information while each of the following are satisfied:

3.1A.1 A reasonable person would not expect the information to be disclosed

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential

3.1A.3 One or more of the following applies

- *It would be a breach of a law to disclose the information.*
- *The information concerns an incomplete proposal or negotiation.*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
- *The information is generated for the internal management purposes of the entity.*
- *The information is a trade secret."*

There is now also the "false market"/"rumours" disclosure rule in clause 3.1B as follows:

"3.1B If ASX considers that there is or is likely to be a false market in an entity's securities and asks the entity to give it information to correct or prevent a false market, the entity must give ASX the information needed to correct or prevent the false market"

The provisions of Chapter 3 are reinforced by Chapter 6CA of the *Corporations Act 2001 (Cwlth)*. In particular, section 674(2) provides that:

"If:

(a) [provisions of the listing rules of a listing market in relation to an entity require to entity to notify the market operator of information about specified events or matters as they arise for the purpose of the operator making that information available to participants in the market]; and

(b) the entity has information that those provisions require the entity to notify to the market operator; and

(c) *that information:*

(i) *is not generally available; and*

(ii) *is information that a reasonable person would expect, if it were generally available, to have a material effect on the price or value of securities of the entity;*

the entity must notify the market operator of that information in accordance with those provisions."

It is therefore essential that directors acquaint themselves not only with their personal obligations of disclosure, but also the disclosure obligations imposed on the Company.

PART 2 - INTERESTED DIRECTORS

All directors are no doubt aware that they occupy a position of trust and confidence and that as a consequence of this, certain fiduciary and statutory duties are owed to the Company. These fiduciary duties exist at general law, but have, to a large extent, become embodied in Sections 180, 181, 182 and 183 of the *Corporations Act 2001 (Cwlth)*.

Part 2 of this Policy is designed to inform directors of the procedures which must be undertaken by them when they possess an interest (financial or otherwise) in any proposed transaction being considered or contemplated by the Company. Directors must be aware that a failure to comply with these procedures may not only give rise to personal liability, but may also adversely affect shareholder and public perception of the Company.

At general law, each director owes the following fiduciary duties to the Company:

- duty to act bona fide in the interests of the Company - this duty is a subjective duty and directors are obliged to act in a manner that they honestly believe to be in the interests of the Company;
- duty to exercise power for proper purposes - this duty may be breached if the purpose which actually motivates an exercise of power by a director is improper given the purpose for which the power was conferred;
- duty to avoid conflicts of interest - a director is not entitled to enter into transactions in which they would have a personal interest conflicting with or which may possibly conflict with the interests of the Company unless they have the fully informed consent of the Company and its members.

These duties are codified in Sections 180, 181, 182 and 183 of the *Corporations Act 2001 (Cwlth)*, which provides that:

- directors must act honestly at all times in the exercise of their powers and discharge of the duties of their office;
- directors must exercise a degree of care and diligence that a reasonable person in a like position in a corporation would exercise in a corporation's circumstances;
- directors must not make improper use of information acquired by virtue of their position as a director to gain either directly or indirectly, an advantage to themselves or others or cause detriment to the company;
- directors must not make improper use of their position to gain, directly or indirectly, an advantage for themselves or for any other person or to cause detriment to the company.

In light of the above duties, it is apparent that where a director has a non-disclosed personal interest in a transaction being considered by the Company, this will clearly constitute a breach of that director's duties to the Company.

In addition to these duties, Section 195 of the *Corporations Act 2001 (Cwlth)* provides that where a director of a public company has a material personal interest in a matter, the director must not vote on the matter and cannot be present while the matter is being considered by the Board of Directors. However, this restriction will not apply if the Board of Directors passes a resolution that specifies the director, his or her interest, the matter and that the directors voting for the resolution are satisfied that the interest should not disqualify the director from considering or voting on the matter.

To avoid the possibility of a director acting in breach of his or her duties, the Company has an established procedure in the Company's Constitution which must be followed where a director has a material interest in a matter. All directors should acquaint themselves with this procedure and ensure compliance with its terms.

It should be noted that where the Board is considering giving approval to a matter involving a director with a Material Interest, the director may not cast any vote on that approval, but if present, he or she may be counted in the quorum for the Board meeting considering that approval.

Financial Benefits to Related Parties

Part 2E of the *Corporations Act 2001 (Cwlth)* also restricts the ability of the Company to provide financial benefits to related parties. A "related party" is defined in Section 243F and **includes a director of the Company or of a body corporate that is a parent entity of the Company, and a spouse, defacto spouse, parent or child of such director.**

Examples of financial benefits which are prohibited by Part 2E include:

- making a loan, guaranteeing a loan or providing security for a loan;
- forgiving a debt;
- buying, selling or leasing an asset;
- acquiring or supplying services;
- issuing shares or granting options; and
- giving money or property.

However, the following forms of benefits are excluded from this prohibition:

- the provision of "reasonable" remuneration to the related party;
- advances to directors or spouses up to \$2,000.00;
- transactions on terms and conditions which are no more favourable to the related party than if they were on arm's length terms in the same circumstances;
- financial benefits given to members in their capacity as members;
- financial benefits provided under court order.

If a proposed benefit is prima facie prohibited by the provisions of Part 2E, the Company still may provide the benefit to the related party if:

- a resolution of the Company permits the benefit to be given; and

- the resolution was passed within fifteen (15) months before the benefit is given; and
- certain other procedures and conditions prescribed by the *Corporations Act 2001 (Cwlth)* are followed.

It is essential that all directors be acquainted with the provisions of Part 2E of the *Corporations Act 2001 (Cwlth)* to ensure that prohibited financial benefits are not given by the Company to related parties. If a contravention of Part 2E occurs, the related party and any person involved in or concerned with the contravention may be liable.

Disclosure of Director Interests

Directors should ensure that their interests in contracts and transactions with the Company are disclosed in the Directors' Report produced at the end of each accounting period. The *Corporations Act 2001 (Cwlth)* requires this report to contain details of each director of the Company, including details of each director's interests in the shares of the Company and particulars of any interests that a director has in relation to a contract or proposed contract with the Company as well as the level of remuneration paid to each director. The report must also set out whether a director has received or is entitled to receive any benefit as a result of any contracts made by the Company.

Directors Providing Services to the Company

In order to capitalise on the professional/technical expertise or experience of directors of the Company from time to time (other than in their capacity as directors), the Company may engage the services of that director (or a firm associated with the director) only on the following terms and conditions:

- the scope of the consultancy (or other services) is identified, together with a schedule of estimated costs and charge out rates to be incurred with the director or their firm;
- (where considered necessary or appropriate) the directors seek additional quotations for the same services; and
- the consultancy services are approved by the directors, in accordance with the procedures identified earlier in this Part 2.

PART 3 – RESPONSIBILITIES IN RESPECT OF ACCOUNTS

The Directors are required by Australian Company Law to prepare financial statements for each financial period which gives a true and fair view of the state of affairs of the group as at the end of the financial period and of the profit or loss for that period.

The Directors are responsible for maintaining proper accounting records in accordance with the *Australian Corporations Act 2001 (Cwlth)*, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company, and prevent and detect fraud and other irregularities. Part 3 of this Policy is designed to ensure that directors maintain appropriate financial controls and accounting records.

Internal Control

The Company should have in place an internal financial control system with a view to provide reasonable assurance regarding:

- (a) The safeguarding of assets against unauthorised use or disposition; and
- (b) The maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Control Environment

Whilst the Board retains ultimate control and direction over the Company's major strategic, financial and organisational issues, it is usual to delegate appropriate authorities to executive directors and to put in place an appropriate organisation or structure with clearly defined divisions of responsibility and reporting relationships.

It might be expected that the Company would introduce formal codes of conduct to ensure that employees pursue the highest standards of integrity and ethical values as well as provide further guidance on specific industry or regional matters.

Identification and Evaluation of Risks and Control Objectives

The Company should regularly evaluate and monitor its business risks.

Depending upon the activities of the Company, the business risks will vary and may include such matters as:

- technical development;
- commodity price volatility;
- environmental;
- community relations;
- health and safety;
- political;
- financial;

It might be expected that the Company would establish various Committees of the Board and Executive to receive and consider reports on these matters from time to time.

Information and Communication

It would be expected that detailed short and long term operating, capital expenditure and cash flow budgets will be prepared and be subject to review by the Board and by any special committees formed for that purpose.

The Board and Senior Executives should be provided on a regular basis with actual results compared with budgets, prior year figures and revised forecasts to the end of the year.

Control Procedures

The Company should establish written procedures to safeguard the Company's assets and to ensure that financial transactions are properly recorded. Accounting policies and practices should be disseminated throughout the Company to any segments of its business. Any significant business unit should document its control procedures which are specific to its operation.

Monitoring and Corrective Action

The Audit Committee will monitor the internal financial controls across the Group on behalf of the Board of Directors. This includes approval of the internal and external audit plans, receipt of regular internal audit activity reports and review of management and responses to matters raised by the external auditors in their management letter.

PART 4 - AUDIT COMMITTEE

The Company has established an Audit Committee to operate under a charter approved by the Company. It is the Company's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information as well as non-financial considerations, such as the benchmarking of operational key performance indicators.

The responsibilities of the Audit Committee include:

- The establishment and maintenance of a framework of internal control and ethical standards for the management of the economic entity;
- Reviewing internal and external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management;
- Liaising with the external auditors and ensuring that the annual and half-yearly statutory audits are conducted in an effective manner;
- Reviewing the Proforma Quarterly, Half-Year and Proforma Preliminary Final Statement prior to lodgment of those documents with the ASX, and any significant adjustments required as a result of the audit, and to make any necessary recommendation to the Board for the approval of these documents;
- Reviewing the draft financial statements and the audit report and making necessary recommendations to the Board for the approval of the financial statements;
- Monitoring compliance with the *Corporations Act 2001 (Cwlth)*, Stock Exchange Listing Rules and any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions;
- Reviewing reports on any major defalcations, frauds and thefts from the Company;
- Reviewing the declaration from the Company Secretary on compliance with statutory responsibilities; and
- Nomination of the external auditor, and reviewing the adequacy of the scope.

It is usual for members of the Audit Committee to be non-executive directors rather than executive directors. Of course, depending upon the number of actual members on the Board, it may not be appropriate for this to be the case at all times.

The Company may direct that the Audit Committee and its members quarantine any information provided to that Committee by management in respect of preparation of half-yearly or annual accounts, from other members of the board of directors who are not on the Audit Committee.

PART 5 – PUBLIC ANNOUNCEMENTS

The continuous disclosure requirements of the Company are set out in earlier sections of this Policy. The Company will, from time to time, have the need to make announcements to the ASX and as a result, of critical importance is the establishment of certain internal systems and protocols for the release of public information about the Company's activities. Without being exhaustive, the following procedures are to be adopted by the Company:

- the appointment of a continuous disclosure officer (most likely the Company Secretary) who is to be principally responsible for preparing and issuing public announcements; liaising with the Chairman as to the content; liaising with other directors to obtain approval of the announcement; as well as liaising generally with ASX; and
- establishing internal reporting protocols between the Company and its subsidiaries (and other entities the Company may have an interest in), to ensure the activities of those subsidiaries and other entities are readily (and promptly) known by the Company.