



GENEPHARM AUSTRALASIA LIMITED

ABN 52 107 340 367

HALF YEAR FINANCIAL REPORT

For the period ended 31 December 2005

Contents

Directors' Report	2
Auditors Independence Declaration	4
Genepharm Australasia Limited Illustrative Financial Report	
Condensed Income Statement	5
Condensed Balance Sheet	6
Condensed Cash Flow Statement	7
Condensed Statement of Changes in Equity	8
Notes to the Half-Year Financial Statements	
1. Basis of preparation of the half-year financial report.....	9
2. Revenues and expenses	17
3. Issued capital	17
4. Reserves	18
5. Related party disclosures	18
6. Segment reporting	18
7. Contingent assets and liabilities	18
8. Events after the balance sheet date	18
Directors' Declaration	19
Independent Review Report to the members of Genepharm Australasia Limited	20

Directors' Report

Your directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

The names and details of the company's directors in office during the financial period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Thomas J.R. O'Brien AM, B.Econ., B.Com. (Hons), FCA, FCPA, FAICD
(Independent non-executive Chairman)

Dennis Bastas, B.E.
(Director and Chief Executive Officer)

George Rogers (Kip) Harding, B.Com., M.Tax, CA
(Director, Chief Financial Officer and Company Secretary)

Achilles N. Vigopoulos, B.A.
(Non-Executive Director)

Ken Lianas, B.Sc. (Hons), MBA
(Non-Executive Director)

REVIEW AND RESULTS OF OPERATIONS

The Board and Management of the Company are pleased that the set-up phase of the business is now complete and that the next half-year period will see the Company beginning its sales operations in a dynamic pharmaceutical market. The business remains focused and flexible to meet the challenges and opportunities that lie ahead.

On Track to Begin First Product Sales in April 2006

Geneparm Australasia Limited ended the 2005 year on-track to have its first three products available for sale in pharmacies across Australia in April 2006. April is the first release window in 2006 for new PBS listed medicines.

The three TGA approved products include Simvastatin which is the second largest PBS (Pharmaceutical Benefits Scheme) drug accounting for over 5.8 million prescriptions in Australia in the 12 months to June 2005 at a dispensed value of \$390 million. Simvastatin is a prescription drug used for people with high cholesterol and risk of coronary heart disease. The other two licensed drugs are an antibiotic and an antidiabetic that are market leaders in their respective therapeutic groups with total dispensed sales of over \$50 million in 2005.

Generic Pharmaceuticals Sector update

The generics sector continues to grow at a rapid rate; being driven by three key factors:

Directors' Report (continued)

1. Patents on products with pharmacy sales of over A\$450 million expired in 2005 alone. The next two years from 2006 to 2008 will see a further \$1 billion worth of annual pharmaceutical sales become available for generic competition in Australia.
2. Government support promoting increased generic substitution.
3. An ageing population using far more prescription medicines including originator brands and generics.

Generic pharmaceutical dispensed sales are expected to grow from \$1 billion to \$2 billion by 2009, primarily supported by patent expiry of eight of Australia's top 20 PBS blockbuster drugs.

Half-Year Milestones

- Initial pre-launch sales in the September 2005 quarter have provided the Company with confirmed orders for April 2006 and confidence in the Genepharm marketing strategy.
- New strategic relationships were developed to provide the Company with additional drug products, services and innovative marketing offers to strengthen Genepharm Australasia's pharmacy programs.
- Operating cash management with net cash outflow of \$1.183 million for the half-year and a cash balance position of \$7.193 million to 31st December 2005.

Full-Year Targets

- The Company's program of new generic drug developments and submissions will continue. Due to the prioritization of completing TGA approvals of existing blockbuster submissions the ongoing new submission program was slowed in the half-year to December 2005. New product submissions will progress in the second half-year with Genepharm expected to complete a number of new drug submissions for the financial year ending June 2006.
- Further TGA approvals of existing drug submissions.
- Complete product licensing agreements to extend product range in retail pharmacy and hospital markets.
- Deploy a market leading sales team of 12-15 experienced sales representatives.

Auditor's Independence Declaration

We have obtained the auditor's independence declaration from our auditors, Ernst and Young. Please refer to page 4 for the auditor's independence declaration.

Signed in accordance with a resolution of the directors.



D. Bastas

Director

Melbourne, 23rd February 2006

Auditor's Independence Declaration to the Directors of Genepharm Australasia Limited

In relation to our review of the financial report of Genepharm Australasia Limited for the financial year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young



David Petersen
Partner

23 February 2006

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	6 months to December 2005 \$	6 months to December 2004 \$
Revenue			
Other income	2	217,670	317,154
Other expenses	2	(2,983,708)	(2,013,137)
LOSS BEFORE INCOME TAX		(2,766,038)	(1,695,983)
Income tax expense		-	-
NET LOSS AFTER INCOME TAX EXPENSE ATTRIBUTABLE TO MEMBERS OF GENEPHARM AUSTRALASIA LIMITED		(2,766,038)	(1,695,983)
EARNINGS PER SHARE			
- basic (loss) per share (cents per share)		(3.6)	(2.2)
- diluted (loss) per share (cents per share)		(3.6)	(2.2)

Condensed Balance Sheet

AS AT 31 DECEMBER 2005

	Notes	As at 31 December 2005 \$	As at 30 June 2005 \$
CURRENT ASSETS			
Cash and cash equivalents		7,193,596	8,472,048
Trade and other receivables		<u>166,191</u>	<u>148,891</u>
TOTAL CURRENT ASSETS		<u>7,359,787</u>	<u>8,620,939</u>
NON-CURRENT ASSETS			
Property, plant and equipment		182,472	119,008
Intangible assets		<u>21,457,717</u>	<u>22,513,600</u>
TOTAL NON-CURRENT ASSETS		<u>21,640,189</u>	<u>22,632,608</u>
TOTAL ASSETS		<u>28,999,976</u>	<u>31,253,547</u>
CURRENT LIABILITIES			
Trade and other payables		212,861	163,532
Provisions		<u>55,634</u>	<u>97,709</u>
TOTAL CURRENT LIABILITIES		<u>268,495</u>	<u>261,241</u>
TOTAL LIABILITIES		<u>268,495</u>	<u>261,241</u>
NET ASSETS		<u>28,731,481</u>	<u>30,992,306</u>
EQUITY			
Issued capital and reserves attributable to equity holders of the Company			
Issued capital	3	35,650,426	35,650,426
Retained earnings		(8,312,963)	(5,546,925)
Other reserves	4	<u>1,394,018</u>	<u>888,805</u>
TOTAL EQUITY		<u>28,731,481</u>	<u>30,992,306</u>

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	6 months to December 2005 \$	6 months to December 2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,253,916)	(834,437)
NET CASHFLOWS USED IN OPERATING ACTIVITIES		<u>(1,253,916)</u>	<u>(834,437)</u>
CASHFLOWS FROM INVESTING ACTIVITIES			
Interest received		217,670	274,123
Purchase of property, plant and equipment		(73,450)	(42,432)
Payments on behalf of related parties		(22,612)	(27,065)
Payments for intangible assets		(146,144)	(462,386)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(24,536)</u>	<u>(257,760)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Transaction costs from issue of shares		-	(13,811)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		<u>-</u>	<u>(13,811)</u>
NET DECREASE IN CASH HELD		(1,278,452)	(1,106,008)
Cash and cash equivalents at beginning of period		8,472,048	10,716,387
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9	<u>7,193,596</u>	<u>9,610,379</u>

Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Issued capital \$	Retained earnings \$	Other Reserves \$	Total \$
At 1 July 2004	35,664,237	(985,427)	-	34,678,810
Share issue costs	(13,811)	-	-	(13,811)
Recognition of share-based payment expense	-	-	2,892	2,892
Total income and expense for the period recognised	35,650,426	(985,427)	2,892	34,667,891
Profit for the period	-	(1,695,984)	-	(1,695,984)
Total income / expense for the period	35,650,426	(2,681,411)	2,892	32,971,907
Exercise of options	-	-	-	-
At 31 December 2004	35,650,426	(2,681,411)	2,892	32,971,907
At 1 July 2005	35,650,426	(5,546,925)	888,805	30,992,306
Share issue costs	-	-	-	-
Recognition of share-based payment expense	-	-	505,213	505,213
Total income and expense for the period recognised	35,650,426	(5,546,925)	1,394,018	31,497,519
Profit for the period	-	(2,766,038)	-	(2,766,038)
Total income / expense for the period	35,650,426	(8,312,963)	1,394,018	28,731,481
Exercise of options	-	-	-	-
At 31 December 2005	35,650,426	(8,312,963)	1,394,018	28,731,481

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Genepharma Australasia Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP'). It is also recommended that the half-year financial report be considered together with any public announcements made by Genepharma Australasia Limited during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
 - AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,
- to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies

(i) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

(ii) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within three months or less, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

(iii) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(iv) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(v) Property, plant and equipment

Cost and valuation

All classes of property, plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment.

Major depreciation periods are:

	2005	2004
Leasehold improvements	Term of lease	Term of Lease
Plant and equipment:	3-13 years	3-13 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vi) Intangibles

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Distribution Agreement and Distribution Rights

Distribution agreement and distribution rights are carried at cost and amortised on a straight-line basis over their useful lives, being 10 years.

Dossier Costs

Dossier costs are expensed as incurred except where it is probable that benefits are expected to exceed those costs. Where dossier costs are deferred, costs are amortised over their expected useful lives of a period not exceeding 7 years commencing from the time future benefits are first realised. Unamortised costs are reviewed at each reporting date. Any amount determined to be no longer recoverable is written off.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(vii) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(viii) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(ix) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs for servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with Dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(xi) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xi) Revenue recognition (continued)

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the

Interest

Control of the right to receive the interest payment.

(xii) Share-based payment transactions

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity settled transactions') under the Senior Mangers' Share Option Plan.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

(xiii) Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward or unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xiii) Income taxes (continued)

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(xix) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	30-Jun-05 \$	31-Dec-04 \$	01-Jul-04 \$
Total equity under AGAAP	30,992,306	32,971,907	34,678,810
<i>Adjustments to retained earnings (net of tax)</i>			
Recognition of share-based payment expense (A)	(888,805)	(2,892)	-
	30,103,501	32,969,015	34,678,810
<i>Adjustments to other reserves (net of tax)</i>			
Recognition of share-based payment expense (A)	888,805	2,892	-
Total equity under AIFRS	<u>30,992,306</u>	<u>32,971,907</u>	<u>34,678,810</u>

(A) Under AASB2 *Share Based Payments*, the Company would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs are not recognised under AGAAP.

(B) No tax effect was noted from the above adjustments.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS (continued)

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	12 months to 30 June 2005 \$	6 months to 31 December 2004 \$
	<u> </u>	<u> </u>
Profit after tax as previously reported	(3,672,693)	(1,693,091)
Recognition of share-based payment expense (A)	(888,805)	(2,892)
Profit after tax under AIFRS	<u>(4,561,498)</u>	<u>(1,695,983)</u>

(A) Share-based payment costs are charged to the income statement under AASB 2 'Share-based Payment', but not under AGAAP.

(B) No tax effect was noted from the above adjustments.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	6 months to 31 December 2005 \$	6 months to 31 December 2004 \$
2 REVENUE AND EXPENSES		
(a) Specific Items		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(i) Other income		
Interest		
- Other parties	217,670	317,154
(ii) Expenses		
Amortisation of non-current assets		
- distribution agreement and distribution rights	1,202,028	1,202,028
Depreciation of non-current assets		
- plant and equipment	7,334	4,638
- leasehold improvements	2,652	2,541
	<u>9,986</u>	<u>7,179</u>
Employment expenses	594,468	210,262
Insurance	20,393	13,300
Operating leases - minimum lease payments	74,243	5,782
Professional fees	87,613	47,438
Share options expensed	505,213	2,892
Telephone and internet	24,865	23,784
Travel	143,387	84,484
(b) Seasonality of Operations		
The Company does not yet earn revenue from the sale of goods and services and as such there are no seasonal inputs or results		
	31 December 2005 \$	30 June 2005 \$
3 ISSUED CAPITAL		
Ordinary shares		
Issued and fully paid	<u>35,650,426</u>	<u>35,650,426</u>
	Number of Shares	\$
Movements in ordinary shares on issue		
At 1 July 2005	76,080,000	35,650,426
Shares issued	-	-
At 31 December 2005	<u>76,080,000</u>	<u>35,650,426</u>

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	31 December	30 June
	2005	2005
	\$	\$
4 RESERVES		
Other		
Movements in other reserves		
Opening balance	888,805	2,892
Recognition of share-based payment expense	505,213	885,913
Closing balance	<u>1,394,018</u>	<u>888,805</u>

5 RELATED PARTY DISCLOSURES

As at 31 December 2005, Genepharma Australasia Ltd has a loan receivable from Genepharma Asia Pacific Enterprises for \$83,492 [30 June 2005: \$60,880] in relation to recoverable costs. No amounts were paid or received between Genepharma Australasia Ltd and Genepharma Asia Pacific Enterprises during the six months ended 31 December 2005

6 SEGMENT REPORTING

The Company predominantly operates in one business segment, providing specialist generic pharmaceutical products. These activities are conducted entirely within Australia.

7 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

8 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to balance sheet date:

(i) the company has had its brand of Simvastatin listed in the Australian Register of Therapeutic Goods as the final stage of the Therapeutic Goods Administration (TGA) approval and registration process for its cholesterol-reducing drug. Simvastatin is Australia's top-selling generic drug with nearly \$400 million sales in the year to June 2005.

(ii) the Company issued options to new employees under the terms of the Senior Manager Share Options Plan.

Neither of these events have a financial impact on the financial results to 31 December 2005.

Directors' Declaration

In accordance with a resolution of the directors of Genepharma Australasia Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the entity:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



D. Bastas

Director

Melbourne, 23rd February 2006

Independent review report to members of Genepharm Australasia Ltd

Scope

The financial report and directors' responsibility

The financial report comprises the condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Genepharm Australasia Ltd (the company), for the six month period ended 31 December 2005.

The directors of the company are responsible for preparing a condensed financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the condensed financial report in order to make a statement about it to the members of the company and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, [a copy of which is included in the Directors' Report].

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Genepharma Australasia Ltd is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Genepharma Australasia Ltd at 31 December 2005 and of its performance for the six month period ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 “Interim Financial Reporting” and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



David Petersen
Partner
Melbourne
23 February 2006