



GENEPHARM AUSTRALASIA LIMITED ANNUAL REPORT

Corporate Information

Directors

T.J.R. O'Brien (Chairman)
D. Bastas (Managing Director and Chief Executive Officer)
G.R. Harding (Executive Director - Finance and Investment)
W.J. Jenkins
A.N. Vigopoulos

Company Secretary

J. Dal Santo

Registered Office

Level 1, 263 City Road
Southbank VIC 3006

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

Bank West
Level 5, Bourke Place
600 Bourke Street
Melbourne VIC 3000

Share Register

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Yarra Falls, 452 Johnstone Street
Abbotsford VIC 3067
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Review by Chairman and CEO

This has been a year of transformation and consolidation for Genepharm Australasia Limited. The Company has successfully completed its integration of the Douglas Pharmaceuticals Australia Limited (DPAL) operations to emerge as one of Australia's leading generic pharmaceutical and health product companies.

The Company has realised many of the sales and marketing synergies expected from the acquisition of DPAL over the past year. Strong market share gains were achieved against the leading market competitors resulting in increases in both pharmacy sales and gross profit of around 50% over 2006.

This growth has only been achieved with significant changes being made to the personnel and overall operations of the merged business. The Directors and management acknowledge that the required changes took longer than initially anticipated but the Board is pleased to report a successful outcome to this process with the creation of a unified organisation with a scalable sales and marketing operation that can effectively manage the pharmacy, medical and consumer market channels for the Company's products. Importantly this structure places the Company in a strong position to leverage potential opportunities with new pharmaceutical and health products either developed in collaboration with the Company's existing supply partners or through acquisition of established health product brands.

This past year the Company reported net sales of \$54.6 million and a net profit after tax of \$4.6 million before non-recurring items. Non-recurring items of \$20.9 million consisted primarily of the non-cash write-off of the Genepharm Asia Pacific Enterprises (GAPE) exclusive supply agreement and associated costs. This resulted in a reported net loss after non-recurring items of \$18.0 million for the 2006/07 financial year.

The mutually agreed termination of the GAPE supply agreement came about as a result of the Company's expansion from a single-source short-range generic drug supply business to a broad-based pharmacy sales and marketing operation that has a full-range of generic drugs and a growing consumer health product portfolio sourced from over twenty leading global manufacturers.

Since the end of the financial year, the Company has also paid out the Convertible Notes issued as part of the acquisition of DPAL. The redemption of the Convertible Notes on 17 August 2007 was paid out of existing cash balances and new debt facilities. The Company retains significant unused debt facilities at this time.

A vital factor in Genepharm's growth is the launch of new generic medicines. During the past year the Company launched a number of new generic pharmaceuticals including five leading prescription drugs with a combined dispensed value in excess of \$250 million per annum. In the first three months of the 2007/08 financial year the Company has received PBS registration for three new drugs including Omeprazole, the leading drug for gastric disorders with an annual dispensed value of \$170 million, Perindopril and Meloxicam, with additional combined values of \$120 million per annum. The growth from new high value PBS medicines coming off-patent will continue over the next five years as the Company's product development programs with its supply partners deliver PBS registrations for medicines with a combined dispensed value of over \$1 billion.

As outlined over the past year the Company continues to view acquisitions as an integral part of our future growth strategy. The Directors and management adopt a disciplined approach to making acquisitions and will only proceed if a strong opportunity exists to enhance shareholder value.

The Australian generic pharmaceutical market continues to be increasingly cost competitive. New entrants and cuts to drug reimbursement on the Pharmaceutical Benefits Scheme are indicative of a challenging market that will reward companies with appropriate supply sources. Genepharm is well positioned to achieve profitable growth in such a market and management have taken many steps to implement strategies to improve the Company's sustainable profitability.

On behalf of Genepharm Australasia we thank you for your ongoing support. The Board would also like to acknowledge the performance and commitment of management and staff during the year and look forward to their continued support.



Thomas J.R. O'Brien (AM)
Chairman



Dennis Bastas
CEO/Managing Director

Business Overview

THE COMPANY

Geneparm Australasia Limited is a majority Australian owned and Australian managed enterprise built on a sustainable business platform of leading products, best people and cost efficient infrastructure.

Geneparm's goal is to continue to build a valuable business for all stakeholders, be they shareholders, employees, customers or business partners.

This past year the Company achieved significant growth while consolidating its operations in order to provide a platform for sustainable earnings growth in the coming years.

OPERATIONAL HIGHLIGHTS

3rd largest generic pharmaceutical company in Australia by net pharmacy sales value

Achieved 80% market share growth

Generic drug sales growth of 53% on proforma sales of Douglas Australia business in 2006

First full year of positive operating cash flow

FINANCIAL SUMMARY 2007

Net Sales	\$ 54.6 million
Gross Profit	\$ 21.8 million
NPAT (before non-recurring items)	\$ 4.6 million
Net loss (after non-recurring items)	\$ 18.0 million
Cash at Bank (30th June 2007)	\$ 13.5 million



OPERATING PERFORMANCE

The Company delivered a strong growth performance in the past year due to incremental growth in pharmacy customers and the addition of a number of significant new generic drugs to its product range.

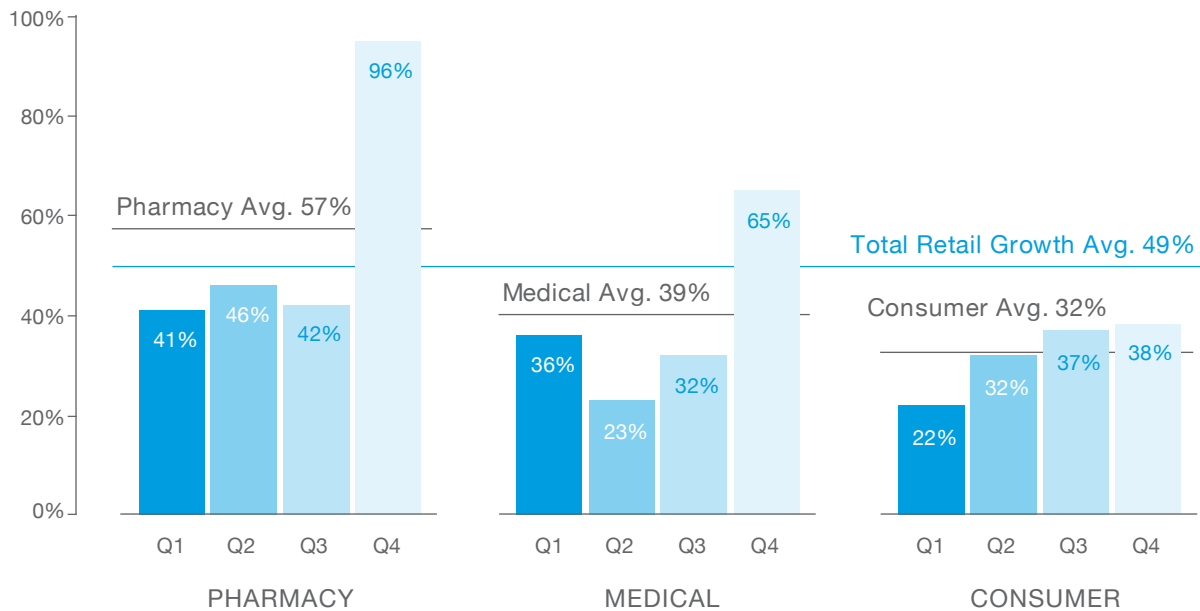
Genepharm has now developed an experienced sales and marketing operation, recruited from key industry players. Over the past year the team has emerged as one of the leading sales groups in pharmacy and has secured many new pharmacy accounts for the Company's product range. The share option program has continued and provides a long term incentive for pharmacists to remain consistent customers. Over the past year 800 pharmacists have applied for more than 1.4 million share options under the WOW Loyalty program. The program has over 1,050 contracted pharmacists participating in the share based loyalty scheme. The Company expects the share option scheme to continue at least until June 2008.

Product range growth was dominated by the five major generic prescription drugs introduced in the 2006/07 financial year.

- *Pravastatin*; a leading cholesterol lowering drug, introduced August 2006, dispensed value \$111 million p.a.
- *Zolpidem*; a private prescription drug used in the treatment for sleep disorders, introduced October 2006, dispensed value \$20 million p.a.
- *Paroxetine*; a leading anti-depressant drug, introduced December 2006, dispensed value of \$42 million p.a.
- *Ramipril*; a top 20 PBS drug used in cardiovascular medicine, introduced March 2007, dispensed value of \$74 million p.a.
- *Roxithromycin*; a leading antibiotic, introduced March 2007, dispensed value \$14 million p.a.

The graph below shows the key growth metrics by business division over the past year, highlighting the Company's performance on a proforma¹ basis against the previous corresponding period for the DPAL business.

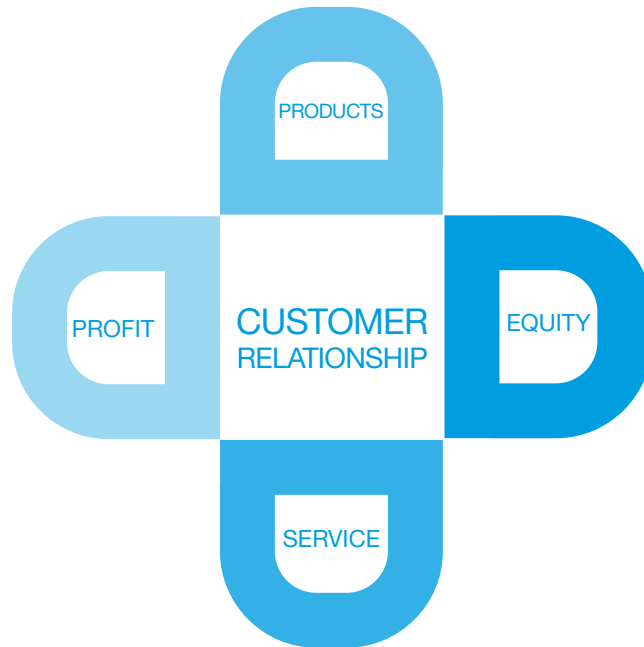
SALES GROWTH FY 2006/07



Notes:

1. Proforma figures for 2006/07 assume a full year contribution from the acquisition of Douglas Pharmaceuticals Australia, which was completed on 13 July 2006. GAA assumed control of DPAL on 1 April 2006 but financial contribution is not accounted in reported results until after settlement date of 12 July 2006.

Genepharm is in a strong position to meet the challenges of the 2007/08 financial year with a sound sales and marketing strategy that will differentiate the Company's proposition to Australian pharmacists. The four key elements of that strategy are built around the Company's key commercial relationship with pharmacy and will provide a competitive and sustainable model of value, service, customer care and equity.



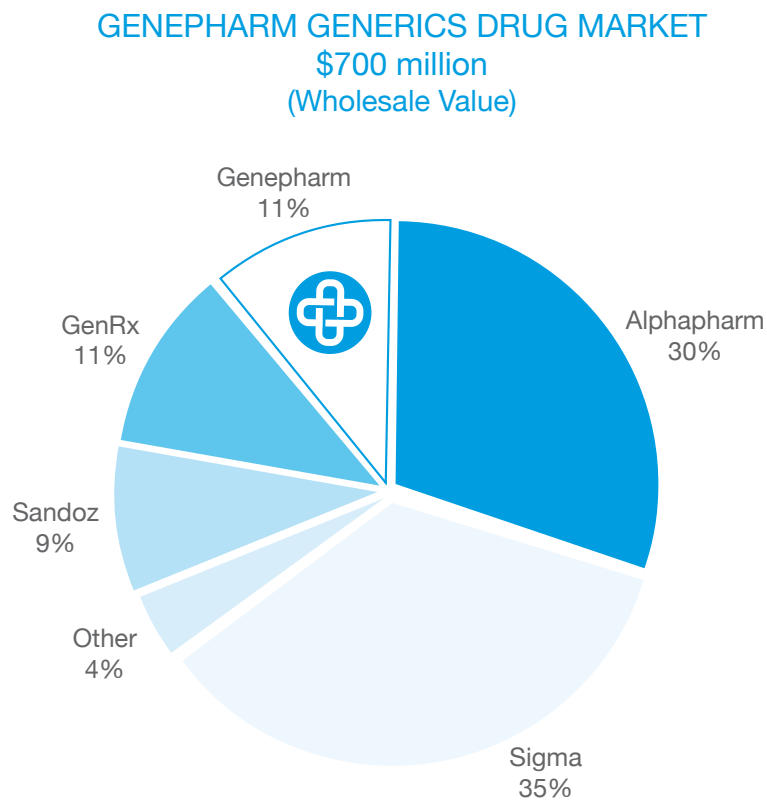
The Company's focus will continue to be the establishment of a diversified healthcare business with a product offering that is clearly focused on our target customer segments.

The Company views an extended product range as a competitive differentiator that can build stronger customer loyalty and provide earnings stability for the business. Genepharm's sales channel is strongly positioned to realise incremental earnings from the development of an extended range of healthcare products that will also deliver sales growth to Australian pharmacists.



MARKET SHARE

In June 2006 it was estimated that the sales of the merged Genepharma Australasia and DPAL business represented a 6% market share for the combined product range. A review of IMS product sales data for June 2007 indicates that the Company's market share for its current product range has grown to 11%.



The past year has seen the four smallest companies in Australia's generic pharmaceutical industry levelling out with less than 4% market share.



Source: IMS data, June 2007 adjusted to constant wholesale price values per product

OUTLOOK

The industry has experienced a period of increased competition over the last year as the market for generic medicines in Australia gains momentum and substitution grows.

In the past 12 months the emergence of new competitors seeking to gain market acceptance has created a competitive landscape that has seen the net selling price of a small number of major generic drugs drop significantly. The impact has also led to a number of the top five generic companies following suit on a broader range of generic drugs.

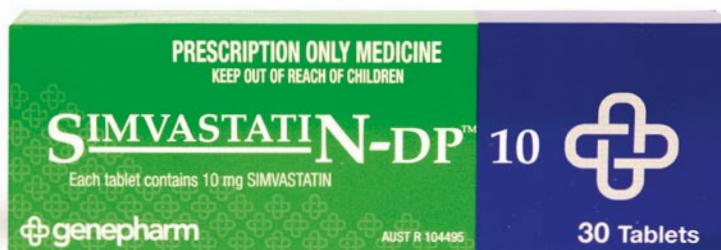
Leading up to December 2006 the subsequent overall effect on pricing for Genepharma was a net sales reduction of 10% across the total range of generic pharmaceuticals. Since January 2007, pricing has remained relatively stable. A significant factor in market pricing looking forward will be the evolution of the smaller generic companies as they broaden their product ranges requiring them to rationalise their pricing structures to suit a product mix with varying levels of profitability.

Changes in the ownership of pharmacy are also beginning to have an effect on the structure of supply arrangements across the industry. In response to these changes Genepharma has developed flexible marketing programs and supply arrangements to engage with the new requirements of its customers.

An essential factor to the Company's sustained growth in a changing market is the ability to remain flexible and focussed on the needs of Australian pharmacy.

Of primary concern is the ability of the Company to maintain profitability across its product range as pricing and supply arrangements require a greater level of competitiveness in order to create opportunities to generate new business. This requirement was the primary driver behind the Company's decision to terminate the exclusive supply agreement with GAPE. The Company's independence as a generic pharmaceutical supplier controlling a significant market share in excess of 10% has created many opportunities for the Company to join forces with a number of the world's largest generic drug manufacturers to bring the highest quality and most cost effective range of drugs to the Australian market.

Genepharma's restructured management team brings together an experienced group of industry operators with backgrounds in retail pharmacy, consumer health and wholesale distribution. This team will lead the Company's sales and marketing operations into a new era of competition with the goal of identifying the opportunities to build new relationships and realise strong growth in the years to come.



FINANCIAL RESULTS SUMMARY

A\$'000	Reported Results FY-2006/07	Reported Results FY-2006/07 (before non-recurring items)	Proforma Results FY-2006/07 (before non-recurring items)	Notes
Net Sales	\$54,575	\$54,575	\$56,472	
Cost of Sales	(\$32,787)	(\$32,787)	(\$34,004)	
Gross Profit	\$21,788	\$21,788	\$22,468	
Operating Expenses	(\$36,766)	(\$17,026)	(\$17,441)	(i)
EBITDA	(\$14,976)	\$4,762	\$5,027	
Dep'n & Amortisation	(\$3,240)	(\$837)	(\$858)	(ii)
EBIT	(\$18,218)	\$3,925	\$4,169	
Net Interest	(\$236)	\$676	\$680	(iii)
NPBT	(\$18,454)	\$4,601	\$4,849	
Tax	\$492	\$ -	\$ -	(iv)
NPAT	(\$17,962)	\$4,601	\$4,849	
EPS (c)	(13.0)	3.3	3.5	

Notes (non-recurring items):

- i. \$18,461,106 – GAPE Distribution Agreement intangible asset write-off (non-cash) and associated costs
\$995,639 – One-off integration costs related to Douglas Pharmaceuticals Australia (DPAL) acquisition
\$288,723 – One-off costs related to proposed business acquisitions
- ii. \$2,404,055 – Final amortisation cost related to GAPE Distribution Agreement (non-cash)
- iii. Interest expenses associated with DPAL Convertible Notes, fully redeemed for cash on 17 August 2007.
\$472,803 – One-off cost related to AIFRS treatment of DPAL Convertible Notes (non-cash)
\$439,024 – One-off cost related to coupon interest paid on DPAL Convertible Notes upon redemption
- iv. (\$492,000) – In light of the positive earnings outlook for the business the Company has also recognised the future tax benefit of its tax losses with a subsequent positive impact on income tax expense.



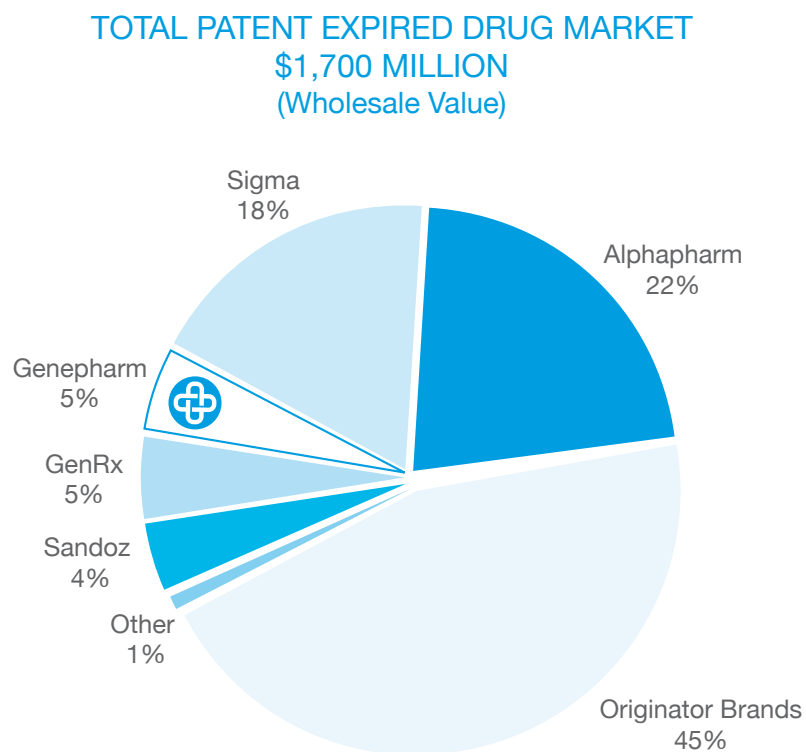
Industry Overview

MARKET SUMMARY 2006/07

The total Australian generic pharmaceutical market was estimated to be worth around \$950 million (wholesale value) this past year, according to Business Monitor International. The growth was spearheaded by an overall 10% increase in the level of generic substitution away from the originator brands of patent expired PBS medicines. This increase along with the patent expiry of a number of PBS medicines has seen the total generic market grow by over 15% over the last twelve months.

Alphapharm remains the largest generics company by sales market share, primarily due to its greater breadth of range which includes over 120 generic drugs. The four other major companies, including Genepharm, offer a range of 60 to 70 generic drugs that account for over 85% of the total volume dispensed by pharmacies.

Over the past year Genepharm has reported the largest growth in market share while a number of its competitors have shown a decrease in their overall market share position.



MARKET OUTLOOK

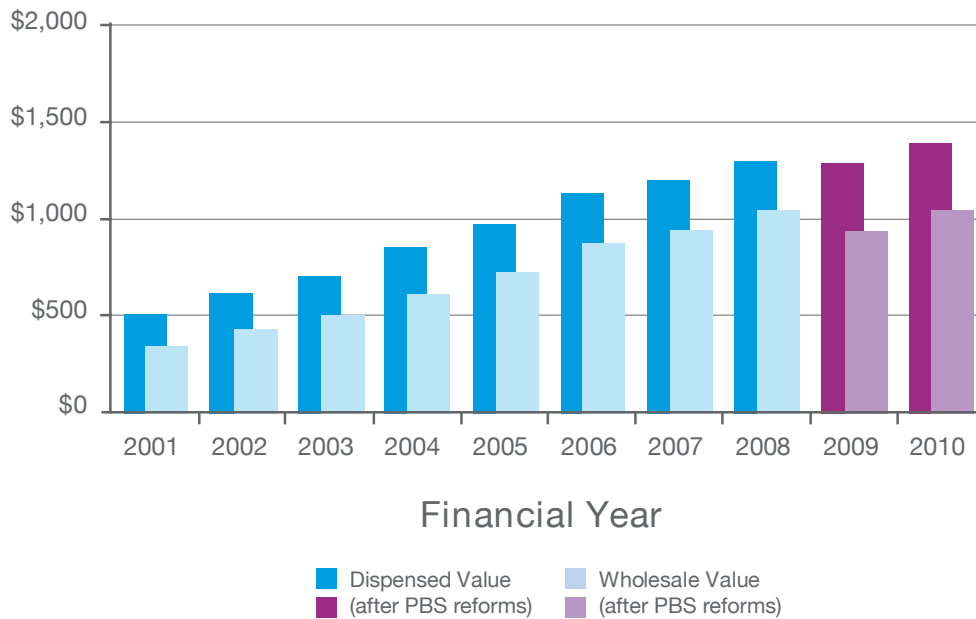
The use of generic pharmaceutical products will continue to grow with an estimated annual growth rate of around 15-20% in prescription volume until the end of the decade. The total PBS value for generic medicines is expected to contract as next year's price reductions take effect but is estimated to grow beyond 2009 at around 7-10% per annum over the next few years which is in line with the historical four year compound annual growth rate of 8%.

The Australian pharmaceutical industry will undergo significant change in 2008 as the effects of the Government's changes to the PBS come into force from 1st August 2008. The key outcome will be a 25% reduction in the wholesale price of almost all key generic medicines.

The Company is expecting to see erosion of net selling prices for the majority of its generic drugs from August 2008. Currently the Company estimates that the effect of the pricing changes will be an overall 10% reduction in the net selling price of its range of generic pharmaceuticals.

An obvious counterpoint to these changes will be the increased volume of generic drugs dispensed in the Australian market and the global trends of reduced costs of supply as active ingredients for generic pharmaceuticals continue to decline. The net effect of the local PBS changes and the supply side gains is estimated to be relatively neutral over the medium term to Genepharm's generic business margins.

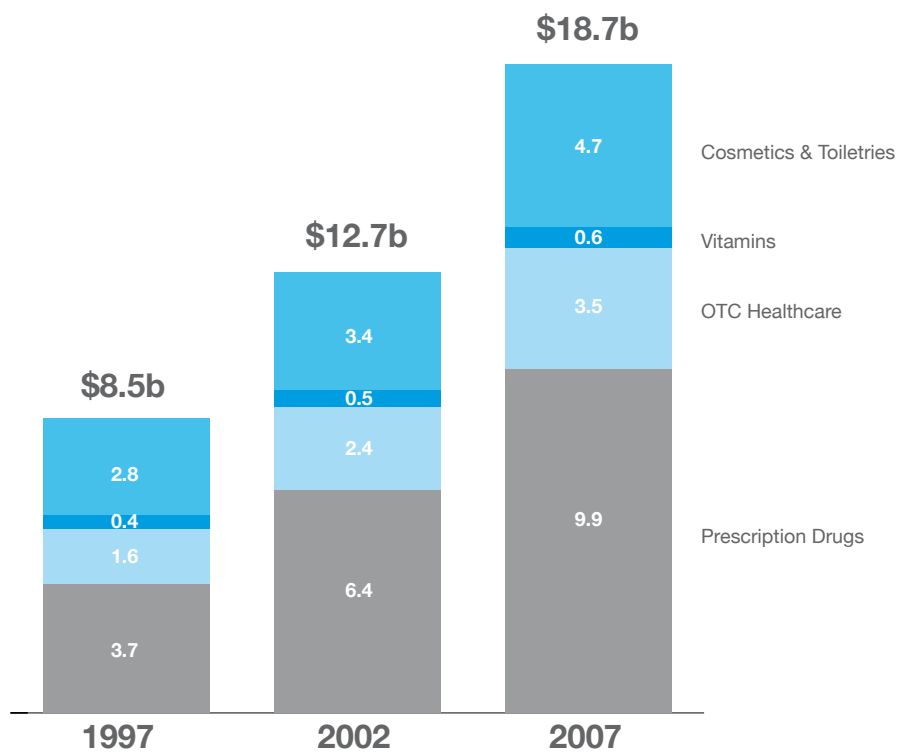
Generic Growth Sales Value



Australian pharmacy is showing strong growth in a number of "front of shop" categories. Vitamins, skincare and over-the-counter (OTC) medicines have over the past few years shown a prominent growth trend. This trend is expected to continue and importantly will provide a vital profit opportunity for pharmacy businesses as margins become tighter in the "back-of-shop" category of prescription medicines.

The Company can see a number of outstanding opportunities emerging over the next few years as Australian lifestyle and consumer health trends drive further growth in front-of-shop categories. The central synergies that exist for Genepharm in expanding to these product areas lie in the areas of sales, promotion and distribution. Strategically these product groups can offer Genepharm significant additional leverage with pharmacy customers and provide margin protection against changes to generic pharmaceutical pricing.

Australian Health & Cosmetic Sales: 1997 – 2007 (A\$ billions)



Directors' Report

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.

Names, qualifications, experience and special responsibilities

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

Director and Chairman since April 2004. Mr O'Brien is also Chairman of the Audit Committee and a member of the Remuneration Committee. Mr O'Brien was Chief Executive Officer in Melbourne for the international accounting firm of Ernst and Young for 12 years and was also National Chairman of Ernst & Young Australia in 1995 and 1996. Mr O'Brien currently serves on a number of boards, including Ultrapay Limited and Virtual Communities Limited. He is currently Chairman of Church Resources, CCI Investment Management Limited and Domaines Tatiarra Limited and was formerly Chairman of St Vincents and Mercy Private Hospital Limited and a member of the Board of Mercy Health and Aged Care.

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

Appointed Managing Director and CEO on formation of the Company in December 2003. Mr Bastas was the founding force behind the initial strategy and creation of the Company. Mr Bastas has extensive senior management experience in business development, retail services and supply chain management with companies including Coles Myer Limited, Mannesmann AG and Village Roadshow Limited.

George Rogers (Kip) Harding, B.Com., M.Tax, CA
(Executive Director - Finance and Investment)

Executive Director since the formation of the Company in 2003. Mr Harding obtained his chartered accounting qualification while working with Touche Ross in Brisbane (now KPMG) and then worked in Australia and abroad in a variety of senior management roles focused on the financial management of new products and new market strategies. From 1993 to 2002 Mr Harding was CFO of the Integrated Packaging Group which during his tenure was one of the largest global businesses in the multibillion dollar tertiary packaging sector.

Warren J. Jenkins
(Independent, Non-Executive Director)

Appointed on 7 February 2007, Mr Jenkins is also Chairman of the Remuneration Committee and a member of the Audit Committee. Mr Jenkins has over 30 years experience in the global pharmaceutical industry having held senior executive positions at Smith Kline and Eli Lilly before joining Serono to build its regional Asia-Pacific sales and marketing operations as Regional Vice President, Oceania and Japan. Most recently Mr Jenkins held the position of Vice-President Sales and Marketing Europe & International for Serono.

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

Director since the formation of the Company in 2003. Mr Vigopoulos is the principal owner and Executive Chairman of the Genepharm Group.

COMPANY SECRETARY

Jo-Anne Dal Santo, B.Bus, ACIS

Ms Dal Santo was appointed Company Secretary on 17 May 2006. Prior to this position Ms Dal Santo held a variety of roles in private industry in accounting and finance and is currently the Managing Director of a forensic accounting support business and is an associate of the Institute of Company Secretaries Australia.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of Genepharm Australasia Limited held directly or by director related entities were:

	Ordinary Shares	Options over Ordinary Shares
T.J.R. O'Brien	837,467	-
D. Bastas	6,970,000	1,800,000
G.R. Harding	3,040,000	1,500,000
W.J. Jenkins	-	-
A.N. Vigopoulos #	28,800,000	-

Indicates relevant interest shareholding via a director related entity.

Dividends

No dividend has been paid or recommended in the current period.

CORPORATE INFORMATION

Corporate Structure

Genepharm Australasia Limited is a company limited by shares that is incorporated and domiciled in Australia

Nature of operations and principal activities

Genepharm Australasia Limited was listed on the Australian Stock Exchange on 10th June 2004. The principal activities of Genepharm Australasia Limited during the course of the financial year were the sale and distribution of generic pharmaceuticals and other health related products to Australian pharmacies and the marketing of those products to consumers and health professionals. The Company also continued to develop and seek market approval for new generic medicines and health products through the Therapeutic Goods Administration.

There were no significant changes in the nature of those activities during the year.

REVIEW AND RESULTS OF OPERATIONS

Sales and Marketing

Genepharm achieved significant growth in sales during the financial year over the previous corresponding period for the combined Genepharm Australasia and Douglas Pharmaceuticals Australia businesses. The Company has built a solid platform for continued growth with an experienced team of pharmacy and medical sales representatives lead by a strong management team recruited from across the industry.

New Products

During the year the company has introduced a number of new drugs including five major generic medicines: Pravastatin, a leading cholesterol lowering drug, Ramipril, a top 20 PBS drug used in cardiovascular medicine, Roxithromycin, a leading antibiotic, Zolpidem, a leading treatment for sleep disorders and Paroxetine, a leading anti-depressant.

Integration of Douglas Pharmaceuticals Australia

In July 2006 the Company completed the acquisition of Douglas Pharmaceuticals Australia Limited. The acquisition brought together the key skills of both companies to create a new generic medicines company with a strong pharmacy focussed sales culture and a diversified healthcare products business with a leading portfolio of generic prescription drugs, skincare and over-the-counter healthcare products.

Integration of the two businesses involved significant operational changes in management, personnel and processes to build a cohesive and functional organisation. The company has identified one-off costs of \$995,639 associated with the integration of the two businesses.

Termination of GAPE exclusive supply agreement

The Company has finalised an agreement with Genepharm Asia Pacific Enterprises Limited (GAPE) to terminate their exclusive product supply agreement by mutual consent.

This agreement for mutual termination and releases is subject to shareholder approval and allows Genepharm Australasia to source pharmacy products unencumbered by the exclusive supply agreement formed before the Company listed on the Australian Stock Exchange in June 2004, and recognises the need for the Company to remain cost competitive in its generic pharmaceutical products division. This allows the Company maximum flexibility to seek cost competitive products from a wide range of suppliers, thereby improving the cost of goods profile and access to "best of breed" manufacturers.

Outlook

The strong market outlook for generic pharmaceuticals continued this year with an increase in dispensed volume of generic drugs through growth in substitution and the expiry of leading drug patents. These key growth drivers along with an ageing, more drug reliant population will continue to drive the industry's positive growth.

Genepharm remains committed to a strategy of expansion into new healthcare product categories. It is the Company's intention to continue its program to identify both organic and acquisition opportunities to diversify the Company's healthcare range and broaden the profit base of the business.

Financial Results

The company recorded a net loss for the period of \$17.962 million after significant and non-recurring items. Net sales were \$54.575 million and net profit after tax (before non-recurring items) was \$4.6 million.

Cashflow Management

Cash management remained a core focus of the business with \$4.845 million of positive net operating cashflow for the financial year. The company's cash position was \$13.460 million as at 30 June 2007.

Management remains confident that the company has sufficient cash resources to meet the needs of the business in the next financial year.

RISK MANAGEMENT

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee. Instead sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole, and the sub-committee further examines the issue and reports back to the Board.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased to \$72,810,423 from \$37,483,414, an increase of \$35,327,009. The movement was largely a result of a Rights Issue of shares in July 2006 as part of the capital raising to fund the acquisition of Douglas Pharmaceuticals Australia Limited.

SIGNIFICANT EVENTS AFTER BALANCE DATE

The Company has finalised an agreement with Genepharm Asia Pacific Enterprises Limited (GAPE) to terminate their exclusive product supply agreement (Agreement) by mutual consent. This agreement for mutual termination and release is subject to shareholder approval and allows Genepharm Australasia to source pharmacy products unencumbered by the (Agreement) formed before Genepharm Australasia Limited listed on the Australian Stock Exchange in June 2004. As a consequence of the termination of the Agreement, Genepharm Australasia will write-off all of the intangible asset value of the Agreement and its associated costs of approximately \$18.461 million, of which \$16.697 million is the write off of the remaining non-cash intangible balance sheet value of the Agreement.

On 2 July 2007 the Company was given notice by Douglas International Holdings Ltd of its intention to exercise its rights of redemption under the terms of the Convertible Note Deed. The Notes were subsequently redeemed in full on 17 August 2007 as follows:

Redemption of Convertible Notes	15,000,000
Payment of accumulated interest	501,326
	<hr/>
	15,501,326
	<hr/>

The Directors are hopeful that the 2008 financial year will see a strong increase in sales and profitability for the Company through continued market share gains and the release of new generic pharmaceuticals.

SHARE OPTIONS

As at the date of this report, there were 7,023,823 unissued ordinary shares under options. Refer to note 26 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or in the interest issue of any other registered scheme.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the directors and executive officers for any breach of environmental or discrimination laws by the Company, for which they may be held personally liable. The agreement provides for the Company to pay an amount not exceeding \$5,000,000 where:

- the liability does not arise out of conduct involving a lack of good faith; or
- the liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgment is given in their favour or in which they are acquitted.

During the financial period, the Company has paid premiums in respect of a contract insuring all the directors of Genepharm Australasia Ltd against costs incurred in defending proceedings for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001. The total amount of insurance contract premiums paid was \$39,488.

REMUNERATION REPORT

This Remuneration Report outlines the Director and executive remuneration arrangements of the Company and the group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 *Related Party Disclosures*, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes of this report Key Management Personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly or indirectly including any Director (whether executive or otherwise) of the parent company, and includes the seven executives of the parent and the group receiving the highest remuneration.

Remuneration philosophy

The performance of the company depends upon the quality of its directors and executives. To prosper in a challenging market environment, the company must attract, motivate and retain highly skilled directors and executives.

To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives
- Link executive rewards to shareholder value
- Significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration

Remuneration committee

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held in November 2006 when shareholders approved an aggregate remuneration of \$250,000 per year.

Non-executive directors are encouraged by the board to hold shares in the company (purchased by the directors on market). It is considered good governance for directors to have a stake in the company on whose board he or she sits.

The remuneration of non-executive directors for the period ending 30 June 2007 is detailed on page 20 of this report.

Senior manager and executive director remuneration

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration by competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee considers market levels of remuneration for comparable executive roles and makes recommendations to the Board.

It is the Remuneration Committee's policy that employment contracts are entered into with all senior managers and executive directors.

Remuneration consists of the following key elements

- Fixed remuneration
- Variable remuneration
 - o Short Term Incentive ('STI'); and
 - o Long Term Incentive ('LTI')

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Remuneration Committee. The remuneration of senior managers and executive directors is detailed on page 20 of this report.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal advice on policies and practices.

Structure

Executive Directors and senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company. The fixed remuneration component of senior managers is detailed on page 20 of this report.

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of the STI programme is to link the achievement of the company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Structure

Actual STI payments granted to each executive and senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to net profit after tax and successful launch of drugs into the market. The company has predetermined benchmarks which must be met in order to trigger payments under the STI scheme.

During the year the acquisition and integration of the Douglas Pharmaceuticals Australia Limited (now Genepharma Limited) business was also considered as an instrumental KPI in fundamentally changing the business.

On an annual basis, after consideration of performance against KPI's, an overall performance rating is approved by the Remuneration Committee. Payments are usually delivered as a cash bonus.

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives and senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such LTI grants are made to executives and senior managers who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to executives and senior managers are delivered in the form of options. Details of options granted, the value of options, vesting periods and forfeited options under the LTI plan are detailed on pages 22 and 23 of this report.

Employment Contracts

Chief Executive Officer

The CEO, Mr. Bastas, is employed under contract. The employment contract commenced on 1 March 2004. Under the terms of the contract:

- Mr. Bastas may resign from his position and thus terminate this contract by giving three month's written notice. On resignation any options will be forfeited.
- The company may terminate the employment agreement by providing 12 months written notice or by providing payment in lieu of some or all of the notice period (based on the fixed component of Mr. Bastas' remuneration). On termination on notice by the company, any LTI options that have vested, or will vest during the notice period will be released. LTI options that have not yet vested will be forfeited.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, Mr. Bastas is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Executive Director - Finance and Investment

The Executive Director - Finance and Investment, Mr. Harding, is employed under contract. The employment contract commenced on 1 March 2004. Under the terms of the contract:

- Mr. Harding may resign from his position and thus terminate this contract by giving three month's written notice. On resignation any options will be forfeited.
- The company may terminate the employment agreement by providing 12 months written notice or by providing payment in lieu of some or all of the notice period (based on the fixed component of Mr. Harding's remuneration). On termination on notice by the company, any LTI options that have vested, or will vest during the notice period will be released. LTI options that have not yet vested will be forfeited.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, Mr. Harding is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Other Executives (standard contracts)

All executives have rolling contracts. The company may terminate the executive's employment agreement by providing written notice (varying from individual to individual) or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). On termination on notice by the company, any LTI options that have vested or that will vest during the notice period will be forfeited. LTI options that have not vested will be forfeited. The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration is fixed, and only up to the date of termination. On termination with cause any vested or unvested options will immediately be forfeited.

DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of key management personnel (KMP)

(i) Directors

T.J.R O'Brien	Chairman (independent, non-executive)
D. Bastas	Director and Chief Executive Officer
G.R. Harding	Executive Director - Finance and Investment
W.J. Jenkins	Director (independent, non-executive) - appointed 7 February 2007
A.N. Vigopoulos	Director (non-executive)

(ii) Executives

S.L. Blank	General Manager, Strategy and Development - appointed 30 October 2006
J. Dal Santo	Company Secretary
K. Doran	Marketing Manager - resigned 17 May 2007
M. Hutchings	Regulatory Services Manager - employment ended 23 March 2007
K. Jeffs	Sales and Marketing Manager - resigned 30 June 2007
B. Renwick	Business Development Manager - resigned 17 August 2007
C. Van Nierkerk	Chief Operations Officer - resigned 31 January 2007

(b) Remuneration of key management personnel (KMP)

Table 1: Remuneration for the year ended 30 June 2007	Short-term		Non-Monetary Benefits	Post Employment	Share Based Payments		Total
	Salary & Fees	Bonuses		Super-annuation	Options	Shares	
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
T.J.R O'Brien - chairman	67,500	-	-	30,600	-	-	98,100
W.J. Jenkins ⁽¹⁾	-	-	-	25,000	-	-	25,000
Sub-total non-executive directors	67,500	-	-	55,600	-	-	123,100
Executive directors							
D. Bastas - Chief executive officer	385,675	336,000	36,169	43,710	40,474	-	842,028
G.R. Harding - Chief finance officer	286,844	256,000	24,960	42,385	33,728	-	643,917
Other key management personnel							
S.L. Blank - General Manager, Strategy & Development ⁽²⁾	122,641	-	15,234	12,300	62,842	1,000	214,017
J. Dal Santo - Company Secretary	5,890	-	24,110	-	-	1,000	31,000
K. Doran - Marketing Manager ⁽³⁾	108,838	5,700	28,311	8,400	-	1,000	152,249
M. Hutchings - Regulatory Services Manager ⁽⁴⁾	117,399	8,200	22,669	15,100	-	1,000	164,368
K. Jeffs - General Manager, Sales & Marketing ⁽⁵⁾	243,011	-	32,910	25,521	(24,892)	-	276,550
B. Renwick - Business Development Manager ⁽⁶⁾	114,957	25,000	29,347	11,384	11,319	1,000	193,007
C. Van Niekerk - General Manager, Operations ⁽⁷⁾	164,086	250,000	30,176	13,965	-	-	458,227
Sub-total executive key management personnel	1,549,341	880,900	243,886	172,765	123,471	5,000	2,975,363
Totals	1,616,841	880,900	243,886	228,365	123,471	5,000	3,098,463

(1) Appointed 7 February 2007

(2) Appointed 30 October 2006

(3) Resigned 17 May 2007

(4) Employment ended 23 March 2007

(5) Resigned 30 June 2007

(6) Resigned 17 August 2007

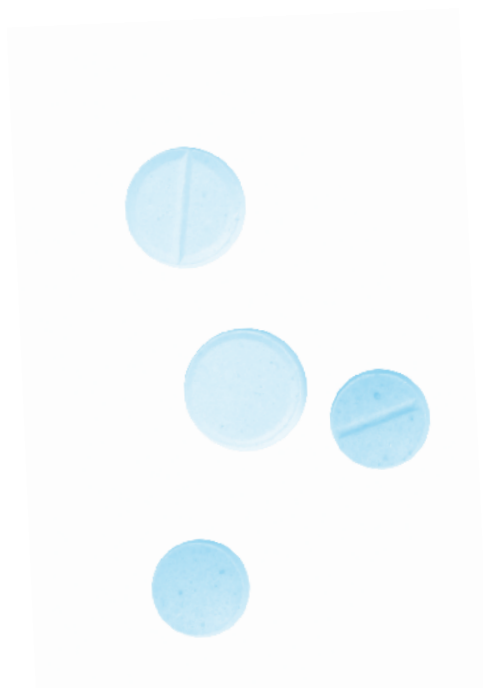
(7) Resigned 31 January 2007

Table 2: Remuneration for the year ended 30 June 2006

	Short-term		Non-Monetary Benefits	Post Em- ployment	Share Based Payments		Total
	Salary & Fees	Bonuses		Super-annuation	Options	Shares	
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
T.J.R O'Brien - chairman	90,600	-	-	8,100	-	-	98,700
Sub-total non-executive directors	90,600	-	-	8,100	-	-	98,700
Executive directors							
D. Bastas - Chief executive officer	279,718	90,000	41,580	20,600	169,705	-	601,603
G.R. Harding - Chief finance officer	233,605	72,000	28,800	28,080	141,421	-	503,906
Other key management personnel			-				
J. Dal Santo - Company Secretary ⁽¹⁾	-	-	-	3,809	-	-	3,809
K. Jeffs - General Manager, Sales & Marketing	161,413	60,000	22,072	21,914	288,773	-	554,172
B. Renwick - Business Development Manager ⁽²⁾	51,859	-	7,774	5,367	8,294	-	73,294
Sub-total executive key management personnel	726,595	222,000	100,226	79,770	608,193	-	1,736,784
Totals	817,195	222,000	100,226	87,870	608,193	-	1,835,484

(1) Appointed 11 May 2006

(2) Appointed 1 January 2006



(c) Remuneration options: Granted and vested during the year (consolidated)

During the financial year options were granted to key management personnel as equity under the Senior Manager Share Option Plan as detailed below.

	Vested	Granted	Terms & Conditions for each Grant			
			No.	No.	Grant Date	Value per option at grant date (\$)
30 June 2007						
Directors						
D. Bastas	600,000	-	-	-	-	-
G.R. Harding	500,000	-	-	-	-	-
Executives						
K. Jeffs	350,000	-	-	-	-	-
B. Renwick	100,000	-	-	-	-	-
S.L. Blank	-	250,000	01-Feb-07	0.25	1.00	30-Jun-10
Total	1,550,000	250,000				
30 June 2006						
Directors						
D. Bastas	600,000	-	-	-	-	-
G.R. Harding	500,000	-	-	-	-	-
Executives						
K. Jeffs	350,000	-	-	-	-	-
B. Renwick	-	300,000	01-Jan-06	0.10 - 0.11	1.50 - 2.00	31-Dec-11
Total	1,450,000	300,000				

(d) Options granted as part of remuneration ⁽¹⁾

	Value of options granted during the year	Value of options forfeited during the year	Value of options granted and forfeited during the year	% Remuneration consisting of options for the year
S.L. Blank	62,842	-	62,842	29%
K.Jeffs	-	(160,460)	(160,460)	-

(1) For details on the valuation of the options, including models and assumptions, please refer to Note 26(a).

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

The maximum grant, which will be payable assuming that all service criteria are met, is equal to the number of options granted multiplied by the fair value at the grant date. The minimum grant payable assuming service criteria are not met is zero.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the period and the number of meetings attended by each director was as follows:

	Directors' Meetings	Audit Committee Meetings	Committee Meetings
Number of meetings held:	10	1	2
Number of meetings attended:			
T.J.R O'Brien	10	1	2
W.J. Jenkins (appointed 7 February 2007)	5	1	1
D. Bastas	10	-	-
G.R. Harding	10	-	-
A.N. Vigopoulos	5	-	-

Committee membership

As at the date of this report, the company had an Audit Committee and a Remuneration Committee of the board of directors.

Members acting on the committees of the board during the period were:

Audit	Remuneration
T.J.R O'Brien (c)	W.J. Jenkins (c)
W.J. Jenkins	T.J.R O'Brien

Notes

(c) Denotes the chairman of the committee.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The directors received the attached audit independence declaration from the auditor of Geneparm Australasia Limited, refer to page 25.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst and Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	2,000
Assurance related and due diligence services	35,885
	<u>37,885</u>

Signed in accordance with a resolution of the directors.



D. Bastas
Managing Director
Melbourne, 26 September 2007



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

In relation to our audit of the financial report of Genepharm Australasia Limited for the financial year ended 30 June 2007, 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

David Petersen
Partner
26 September 2007

Corporate Governance Statement

Genepharm Australasia Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Encourage enhanced performance
Principle 9.	Remunerate fairly and responsibly
Principle 10.	Recognise the legitimate interests of stakeholders

Genepharm Australasia Limited's corporate governance practices were in place throughout the year ended 30 June 2007 with the exception of Principle 2 which recommends that the board be comprised of a majority of independent directors. Of the five board members in total, three directors are not considered to be independent when applying the Council's definition of independence. Therefore the majority of the board is not independent. Genepharm Australasia Limited considers industry experience and specific expertise to be important attributes of its board members.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report on page 14. Directors of Genepharm Australasia Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Genepharm Australasia Limited are considered to be independent:

Name	Position
T.J.R. O'Brien	Non-Executive Chairman
W.J. Jenkins	Non-Executive Director

There are procedures in place, agreed by the board, to enable directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Genepharm Australasia Limited are considered not to be independent:

Name	Position
D. Bastas	Managing Director and Chief Executive Officer
G.R. Harding	Executive Director - Finance and Investment
A. N. Vigopoulos	Non-Executive Director

The term in office held by each director in office at the date of this report is as follows:

Name	Term in Office
T.J.R. O'Brien	Since 6 April 2004
D. Bastas	Since 10 December 2003
G.R. Harding	Since 10 December 2003
A. N. Vigopoulos	Since 10 December 2003
W.J. Jenkins	Since 7 February 2007

For additional details regarding board appointments, please refer to our website.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board'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, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the audit committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are non-executive directors.

The members of the Audit Committee during the period were:

T.J.R O'Brien (Chairman)
W.J. Jenkins

For details on the number of meetings of the audit committee held during the period and the attendees at those meetings refer to page 23 of the Directors' Report.

Remuneration Committee

The Board has established a Remuneration Committee, which operates under a charter approved by the Board. The purpose of the committee is to provide the board of directors of the Company with advice and recommendations which enable the Board to:

- (1) set in place remuneration policies which are designed to attract and retain senior managers and directors with the expertise to enhance the performance and growth of the Company; and
- (2) ensure that the level and composition of remuneration packages are fair, reasonable and adequate and, in the case of executive directors and senior managers, display a clear relationship between the performance of the individual and the performance of the Company.

The members of the Remuneration Committee during the period were:

W.J. Jenkins (Chairman)
T.J.R O'Brien

For details on the number of meetings of the remuneration committee held during the period and the attendees at those meetings refer to page 23 of the Directors' Report.

Income Statements

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	CONSOLIDATED	PARENT	
		2007 \$'000	2007 \$'000	2006 \$'000
Continuing operations				
Net sales of goods		54,575	987	1,795
Other revenue	5	720	1,494	409
Revenue		55,295	2,481	2,204
Cost of sales		(32,787)	(1,061)	(1,023)
Gross profit		22,508	1,420	1,181
Other income	6	14	50	-
Sales and marketing expenses		(13,435)	(3,291)	(4,263)
Distribution expenses		(767)	(7)	-
Corporate Affairs expenses		(1,580)	(1,580)	(1,258)
Regulatory Affairs expenses		(1,284)	(57)	(238)
Occupancy expenses		(809)	(225)	(137)
Administration expenses		(3,189)	(1,336)	(879)
Other expenses	7(a)	(364)	(364)	-
Finance costs	7(b)	(1,087)	(930)	(7)
Impairment of intangible asset and write off of associated net assets and liabilities	7(f)	(18,461)	(18,461)	-
Profit/(loss) from continuing operations before income tax		(18,454)	(24,781)	(5,601)
Income tax (expense)/benefit	8	492	2,460	-
Net loss for the period		(17,962)	(22,321)	(5,601)
Earnings per share (cents per share)	9			
- basic loss for the year		(13.0)	(16.2)	(7.3)
- diluted loss for the year		(13.0)	(16.2)	(7.3)

Balance Sheets

AS AT 30 JUNE 2007

		CONSOLIDATED		PARENT	
	Notes	2007	2007	2006	
		\$'000	\$'000	\$'000	
CURRENT ASSETS					
Cash and cash equivalents	10	13,460	3,608	14,989	
Trade and other receivables	11	12,295	33,253	1,460	
Inventories	12	11,577	-	1,870	
Other	13	609	168	1,010	
TOTAL CURRENT ASSETS		37,941	37,029	19,329	
NON-CURRENT ASSETS					
Investment in subsidiary	14	-	44,140	-	
Property, plant and equipment	15	1,411	199	278	
Deferred tax assets	8	1,606	1,975	-	
Intangible assets and goodwill	16	61,701	73	21,175	
TOTAL NON-CURRENT ASSETS		64,718	46,387	21,453	
TOTAL ASSETS		102,659	83,416	40,782	
CURRENT LIABILITIES					
Trade and other payables	17	15,651	1,299	3,143	
Interest bearing liabilities	18	13,209	13,209	-	
Income tax payable		496	314	-	
Provisions	19	412	143	155	
TOTAL CURRENT LIABILITES		29,768	14,965	3,298	
NON-CURRENT LIABILITIES					
Provisions	19	81	-	-	
TOTAL CURRENT LIABILITES		81	-	-	
TOTAL LIABILITIES		29,849	14,965	3,298	
NET ASSETS		72,810	68,451	37,484	
EQUITY					
Contributed equity	21	97,053	97,053	46,896	
Convertible notes	22	2,669	2,669	-	
Retained losses		(29,110)	(33,469)	(11,148)	
Other reserves	22	2,198	2,198	1,736	
TOTAL EQUITY		72,810	68,451	37,484	

Cash Flow Statements

FOR THE YEAR ENDED 30 JUNE 2007

		CONSOLIDATED		PARENT	
		2007	2007	2006	
	Notes	\$'000	\$'000	\$'000	
Cash flows from operating activities					
Payments to suppliers and employees		(53,696)	(6,613)	(4,465)	
Receipts from customers		57,951	1,406	571	
Interest received		688	1,482	389	
Income taxes paid		(99)	-	-	
Net cash flows from/(used in) operating activities	23	4,844	(3,725)	(3,505)	
Cash flows from investing activities					
Purchase of plant and equipment		(830)	(135)	(185)	
Payments for intangible assets		(1,015)	(46)	(1,080)	
Costs associated with the acquisition of a business		(56,207)	(56,207)	-	
Cash from acquired business		2,947	-	(109)	
Net cash flows used in investing activities		(55,105)	(56,388)	(1,374)	
Cash flows from financing activities					
Proceeds from placement of shares	21	51,692	51,692	11,412	
Transaction costs from issue of shares and convertible notes		(2,960)	(2,960)	(16)	
Net cash flows from financing activities		48,732	48,732	11,396	
Net increase/(decrease) in cash and cash equivalents		(1,529)	(11,381)	6,517	
Cash and cash equivalents at beginning of period		14,989	14,989	8,472	
Cash and cash equivalents at end of period	10	13,460	3,608	14,989	

Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

	Issued capital \$'000	Retained losses \$'000	Con- vertible Notes \$'000	Other Reserves \$'000	Total \$'000
CONSOLIDATED					
At 1 July 2006	46,896	(11,148)	-	1,736	37,484
Share issue costs	(1,609)	-	-	-	(1,609)
Loss for the year	-	(17,962)	-	-	(17,962)
Total recognised income and expense for the period	(1,609)	(17,962)	-	-	(19,571)
Issue of convertible notes - equity value	-	-	2,669	-	2,669
Share-based payments	-	-	-	462	462
Issue of share capital (note 21)	51,766	-	-	-	51,766
At 30 June 2007	97,053	(29,110)	2,669	2,198	72,810
PARENT					
At 1 July 2005	35,650	(5,547)	-	889	30,992
Share issue costs	(166)	-	-	-	(166)
Loss for the year	-	(5,601)	-	-	(5,601)
Total recognised income and expense for the period	(166)	(5,601)	-	-	(5,767)
Share-based payments	-	-	-	847	847
Issue of share capital (note 21)	11,412	-	-	-	11,412
At 30 June 2006	46,896	(11,148)	-	1,736	37,484
Share issue costs	(1,609)	-	-	-	(1,609)
Loss for the year	-	(22,321)	-	-	(22,321)
Total recognised income and expense for the period	(1,609)	(22,321)	-	-	(23,930)
Issue of convertible notes - equity value	-	-	2,669	-	2,669
Share-based payments	-	-	-	462	462
Issue of share capital (note 21)	51,766	-	-	-	51,766
At 30 June 2007	97,053	(33,469)	2,669	2,198	68,451

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

1 CORPORATE INFORMATION

The financial report of Genepharm Australasia Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 26 September 2007.

Genepharm Australasia Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared in accordance with the historical cost convention.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

(b) Statement of compliance

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

Certain Australian Accounting Standards and Urgent Issues Group ('UIG') interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2007. The directors' have assessed the impact of these new or amended standards (to the extent relevant to the group) and interpretations as follows:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 Financial Instruments: Disclosures.	1-Jan-07	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1-Jul-07
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 Interim Financial Reporting and Impairment.	1-Mar-07	This is consistent with the Group's existing accounting policies for share-based payments so will have no impact.	1-Jul-07
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 Operating Segments.	1-Jan-09	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Groups financial statements. The impact of the new standard is yet to be determined.	1-Jul-09
AASB 7	Financial Instruments: Disclosures	New standard replacing disclosure requirements of AASB 132.	1-Jan-07	Refer to AASB 2005-10 above.	1-Jul-07
AASB 8	Operating Segments	This new standard will replace AASB 114 Segment Reporting and adopts a management approach to segment reporting.	1-Jan-09	Refer to AASB 2007-3 above.	1-Jul-09
AASB Interpretation 13	Customer Loyalty Programmes	This interpretation addresses customer loyalty programmes under which customers are granted customer loyalty award credits.	1-Jul-08	On adoption, revenue received will be split based on fair value between the sale and the value of points awarded. The impact of the new standard is yet to be determined.	1-Jul-08

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Genepharma Australasia Limited and its subsidiaries as at 30 June 2007 ('the Group').

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of the subsidiary - Genepharma Limited (formerly Douglas Pharmaceuticals Limited) - on 13 July 2006 has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair values of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of Genepharma Limited from its acquisition on 13 July 2006.

No comparative disclosure has been shown for consolidated 2006 as the acquisition of the subsidiary - Genepharma Limited - occurred on 13 July 2006. Consequently the disclosures for the parent for 2006 are equivalent to consolidated 2006.

(d) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the business combination over the net fair value of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

(f) Foreign currency translation

Both the functional and presentation currency of Genepharma Australasia Limited and its Australian subsidiary is Australian dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences in the consolidated financial report are taken to profit or loss.

(g) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash includes cash and cash equivalents as defined above.

(h) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when there is objective evidence that the group will not be able to collect the debt. Bad debts are written off when identified.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated net selling price in the ordinary course of business.

(j) Property, plant and equipment

Cost and depreciation

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold Improvements - over the term of the lease
Plant and equipment – over 3 to 13 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amounts being estimated, when events or changes in circumstances indicate the carrying value may be impaired.

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.

Impairment losses are recognised in the income statement.

(k) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units. Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in account estimate.

Where amortisation is charged on assets with finite lives the expense is taken to the income statement.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Dossier Costs and Licences

Dossier costs and licences are expensed as incurred except where future benefits are expected, to exceed those costs. Where dossier costs are deferred, costs are amortised over their expected useful lives of a period of two to five years commencing from the time benefits are first realised. Unamortised costs are reviewed at each reporting date. Any amount determined to be no longer recoverable is written off.

A summary of the policies applied to the Group's intangible assets is as follows:

Dossier Costs and Licences

Useful lives

Finite

Amortisation method used

Dossier costs are amortised on a straight-line basis over the period of expected future benefits to a maximum of five years

Licences are amortised over the period of the licence agreement

Internally generated or acquired

Acquired

Impairment testing

Annually for assets not available for use and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year end.

Trademarks

Useful lives

Indefinite

Amortisation method used

No amortisation

Internally generated or acquired

Acquired

Impairment testing

Annually and more frequently when an indication of impairment exists

The Group has determined that the registered Trademarks have no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. Thus, the assets have indefinite useful lives.

Supply agreements

Useful lives

Finite

Amortisation method used

Amortised on a straight-line basis over the period of expected future benefit of seven years

Internally generated or acquired

Acquired

Impairment testing

Annually and more frequently when an indication of impairment exists

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(l) Impairment of assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company 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.

(m) 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.

(n) Redeemable convertible notes

The component of the redeemable convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs.

On the issuance of the redeemable convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance cost.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of issue costs. The value of the conversion option is not changed in subsequent years.

Issue costs are apportioned between the liability and equity components of the redeemable convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(o) Employee leave benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(p) Share-based payment transactions

Senior Manager Share Option Plan (SMSOP)

A senior manager share option plan has been established whereby the Company may, at the discretion of the Board of Directors, grant options over the ordinary shares of the Company to executive directors, executives and certain members of staff.

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, further details of which are given in note 26.

In valuing equity-settled transactions, no account is taken of any performance or market conditions, given only service conditions are applied.

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

Loyalty Reward Program (Wealth Option Winners -"WOW")

A pharmacy loyalty programme share option plan has been established where Genepharm Australasia Limited may, at the discretion of the Board of Directors, grant options over the ordinary shares of Genepharm Australasia Limited to Eligible Participants. The options are issued for a term of three years and are exercisable at varying dates.

The cost of these equity-settled transactions 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, further details of which are given in note 26.

The cost of these equity-settled transactions is recognised, together with a corresponding increase in equity, at the grant date of the the award ('vesting date').

The cumulative expense recognised for all equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired and
- (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date.

No expense is recognised for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 9).

The Company has applied the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' in respect of equity-settled awards and has applied AASB 2 'Share-Based Payments' only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(q) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(r) Revenue

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(s) Loyalty Reward Program (Wealth Option Winners -"WOW")

Pharmacies enrolled in the loyalty reward program accumulate points from purchasing Genepharm's products. The obligation to provide rewards to customers arising from these points is provided as points are accumulated. The provision is based on the present value of the expected direct cost of providing the rewards.

(t) 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 based on the current period's taxable income. 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 where the deferred income tax liability 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of 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 assets and unused tax losses can be utilised:

- except where 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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 the income statement.

Tax consolidation legislation

Genepharma Australasia Limited and its wholly-owned Australian controlled entity have implemented the tax consolidation legislation as of 13 July 2006.

The head entity, Genepharma Australasia Limited, and the controlled entity in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

(u) Other taxes

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

- where 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 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(v) 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.

(w) Earnings per share ('EPS')

Basic EPS is calculated as net profit attributable to members, adjusted to exclude 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 EPS is calculated as net profit attributable to members, adjusted for:

- costs of 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant accounting judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 16.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, with the assumptions detailed in note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Long service leave provision

As discussed in note 2(o), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Allowance for impairment loss on trade receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. Due to the large number of debtors, this assessment is based on supportable past collection history and historical write-offs of bad debts.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for leasehold improvements). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 7(c).

4 SEGMENT INFORMATION

Business segments

The Group operates in one business segment, distributing and marketing pharmaceutical and ancillary products.

Geographical segments

The Group's activities are conducted entirely within Australia.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED	PARENT	
	2007	2007	2006
	\$'000	\$'000	\$'000
5 OTHER REVENUE			
Interest	688	1,482	409
Other	32	12	-
	<u>720</u>	<u>1,494</u>	<u>409</u>
6 OTHER INCOME			
Gain on foreign exchange	14	50	-
	<u>14</u>	<u>50</u>	<u>-</u>
7 EXPENSES			
(a) Other expenses			
Professional fees	289	289	-
Shares issued to staff - no cost	75	75	-
	<u>364</u>	<u>364</u>	<u>-</u>
(b) Finance costs			
Interest on convertible notes	924	922	-
Bank charges	155	8	7
Bad debts written-off	8	-	-
	<u>1,087</u>	<u>930</u>	<u>7</u>
(c) Depreciation and amortisation included in income statement			
Depreciation of fixed assets	325	113	26
Amortisation of distribution agreement	2,404	2,404	2,404
Amortisation of dossier costs and licences	342	110	15
Amortisation of supply agreement	169	-	-
Total depreciation and amortisation	<u>3,240</u>	<u>2,627</u>	<u>2,445</u>
(d) Lease payments and other expenses included in income statement			
Minimum lease payments - operating leases	970	188	153
	<u>970</u>	<u>188</u>	<u>153</u>
(e) Employee benefits expense			
Wages and salaries	7,224	1,371	1,536
Superannuation costs	581	109	144
Share-based payments expense	193	193	755
Other employee benefits expense	1,055	231	346
	<u>9,053</u>	<u>1,904</u>	<u>2,781</u>
(f) Impairment of intangible asset and write off of associated net assets and liabilities			
Impairment of Distribution Agreement and Distribution Rights	16,697	-	-
Impairment of Dossier Costs	1,936	-	-
	<u>18,633</u>	<u>-</u>	<u>-</u>
Other associated net assets, liabilities and costs	(172)	-	-
	<u>18,461</u>	<u>-</u>	<u>-</u>

Refer to note 31 for further information

	CONSOLIDATED		PARENT	
	2007	2007	2006	
	\$'000	\$'000	\$'000	

8 INCOME TAX

(a) Income tax benefit

The major components of income tax expense are:

Income Statement

Current income tax

Current income tax charge

654 (1,649) -

Deferred income tax

Relating to origination and reversal of temporary differences

(1,146) (811) -

Income tax benefit reported in income statement

(492) (2,460) -

(b) Amounts charged or credited directly to equity

Current income tax related to items charged or credited directly to equity

Equity raising costs

(1,318) (1,318) -

Income tax benefit reported in equity

(1,318) (1,318) -

(c) Numerical reconciliaiton between aggregate tax expense recognised in the income statement and tax expense calculated per statutory income

A reconciliation of income tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	(18,454)	(24,781)	(5,601)
At the statutory income tax rate of 30% (2006: 30%)	(5,536)	(7,434)	(1,680)
GAPE relationship write-off	4,952	4,952	-
Amortisation of distribution agreement	721	721	721
Equity based benefits	139	139	254
Interest on convertible notes	150	150	-
Amortisation of licences	81	-	4
Other	217	229	-
Recognition of previously unrecognised tax losses	(1,232)	(1,232)	-
Expenditure not allowable for income tax purposes	16	15	15
Aggregate income tax benefit	(492)	(2,460)	(686)
Future income tax benefits not recognised	-	-	686
Income tax benefit reported in income statement	(492)	(2,460)	-

CONSOLIDATED PARENT

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

8 INCOME TAX (continued)

(d) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June 2007 relates to the following:

	2007 \$'000	2007 \$'000	2006 \$'000
<i>(i) Deferred tax assets</i>			
Doubtful debts	10	-	-
Valuation for inventory for tax purposes	215	-	-
Accelerated depreciation	19	-	-
Investment costs	111	111	-
Employee entitlement provisions	105	43	-
Equity raising costs	817	817	-
Losses recognised for offset against future taxable income	892	892	-
Other	165	134	-
Gross deferred tax assets	2,334	1,997	-
Set off of deferred tax liabilities	728	22	-
Net deferred tax assets	1,606	1,975	-
<i>(ii) Deferred tax liabilities</i>			
Dossier costs	228	22	-
Foreign currency balances	19	-	-
Licenses	481	-	-
Gross deferred tax liabilities	728	22	-

(e) Tax consolidation

Genepharm Australasia Limited and its 100% owned Australian resident subsidiary formed a tax consolidated group with effect from 13 July 2006. Genepharm Australasia Limited is the head entity of the tax consolidated group.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current income taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable/ (payable) which is at call. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year.

9 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	CONSOLIDATED	PARENT
	2007	2006
	\$'000	\$'000
Net loss	(17,962)	(5,601)
Earnings used in calculating basic and diluted loss per share	(17,962)	(5,601)
	Thousands	Thousands
Weighted average number of ordinary shares for basic loss and diluted loss per share	137,662	76,799

The Company has 7,023,823 options (2006: 6,218,282) outstanding at 30 June 2007 that could potentially dilute basic earnings per share in the future, however these options were not included in the calculation of diluted earnings per share because they are anti-dilutive for the years presented.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

10 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	CONSOLIDATED	PARENT	
	2007	2007	2006
	\$'000	\$'000	\$'000
Reconciliation to Cashflow Statement			
Cash at bank and on hand	3,643	8	289
Short-term deposits	9,817	3,600	14,700
	13,460	3,608	14,989

Cash at bank and on hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED		PARENT	
	2007	2007	2006	
	\$'000	\$'000	\$'000	
11 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES				
Trade receivables	12,243	2	1,403	
Allowance for doubtful debts (a)	(35)	-	-	
	12,208	2	1,403	
Related party receivables:				
Other related parties	-	33,251	24	
Accrued income	-	-	19	
Other receivables	87	-	14	
	<u>12,295</u>	<u>33,253</u>	<u>1,460</u>	

(a) Allowance for doubtful debts

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms. An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment loss of \$34,862 has been recognised by the Group for specific debtors and debtors assessed on a collective basis, as described in note 2(h), for which such evidence exists.

12 CURRENT ASSETS - INVENTORIES

Finished goods	11,577	-	1,870
	<u>11,577</u>	<u>-</u>	<u>1,870</u>

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2007 totalled \$30,345,159 for the Group and \$1,020,496 (2006: 743,391) for the Company. This expense has been included in the cost of sales line item as a cost of inventories.

13 CURRENT ASSETS - OTHER

Deposits	31	31	30
Prepayments	578	137	182
Deferred acquisition costs	-	-	796
Withholding tax	-	-	2
	<u>609</u>	<u>168</u>	<u>1,010</u>

14 NON CURRENT ASSETS - INVESTMENT IN SUBSIDIARY

Investment details

Unlisted

Investment in controlled entity - at cost	-	44,140	-
	<u>-</u>	<u>44,140</u>	<u>-</u>

15 NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amounts at the beginning and end of the period

	CONSOLIDATED		
	Plant and equipment	Leasehold improve- ments	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2007			
At 1 July 2006 net of accumulated depreciation	198	80	278
Additions	751	124	875
Acquisition of a subsidiary (note 27)	442	141	583
Depreciation and amortisation charge for the year	(219)	(106)	(325)
At 30 June 2007 net of accumulated depreciation	1,172	239	1,411
At 1 July 2006			
Cost	230	91	321
Accumulated depreciation and amortisation	(32)	(11)	(43)
Net carrying amount	198	80	278
At 30 June 2007			
Cost	2,049	561	2,610
Accumulated depreciation and amortisation	(877)	(322)	(1,199)
Net carrying amount	1,172	239	1,411

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

15 NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of carrying amounts at the beginning and end of the period (continued)

	Plant and equipment \$'000	PARENT Leasehold improve- ments \$'000	Total \$'000
Year ended 30 June 2007			
At 1 July 2006, net of accumulated depreciation	198	80	278
Additions	69	68	137
Transferred to subsidiary	(103)		(103)
Depreciation and amortisation charge for the year	(34)	(79)	(113)
At 30 June 2007, net of accumulated depreciation	130	69	199
At 30 June 2006			
Cost	230	91	321
Accumulated depreciation and amortisation	(32)	(11)	(43)
Net carrying amount	198	80	278
At 30 June 2007			
Cost	196	159	355
Accumulated depreciation and amortisation	(66)	(90)	(156)
Net carrying amount	130	69	199
Year ended 30 June 2006			
At 1 July 2005, net of accumulated depreciation	70	49	119
Additions	148	37	185
Depreciation and amortisation charge for the year	(20)	(6)	(26)
At 30 June 2006, net of accumulated depreciation	198	80	278
At 1 July 2005			
Cost	82	54	136
Accumulated depreciation and amortisation	(12)	(5)	(17)
Net carrying amount	70	49	119
At 30 June 2006			
Cost	230	91	321
Accumulated depreciation and amortisation	(32)	(11)	(43)
Net carrying amount	198	80	278

16 NON CURRENT ASSETS - INTANGIBLE ASSETS AND GOODWILL

(a) Reconciliation of carrying amounts at the beginning and end of the period

	CONSOLIDATED					
	Distribution Agreement and Distribution Rights \$'000	Dossier Costs and Licence Agreements \$'000	Supply Agreement \$'000	Trade-marks \$'000	Goodwill \$'000	Total \$'000
Year ended 30 June 2007						
At 1 July 2006, net of accum. amortisation	19,101	2,074	-	-	-	21,175
Additions	-	1,173	-	-	-	1,173
Acquisition of a subsidiary (note 27)	-	1,825	1,186	6,400	51,535	60,946
Disposals	-	(45)	-	-	-	(45)
Impairment (c)	(16,697)	(1,936)	-	-	-	(18,633)
Amortisation	(2,404)	(342)	(169)	-	-	(2,915)
At 30 June 2007, net of accumulated amortisation	-	2,749	1,017	6,400	51,535	61,701
At 1 July 2006						
Cost (gross carrying amount)	24,041	2,089	-	-	-	26,130
Accumulated amortisation	(4,940)	(15)	-	-	-	(4,955)
Net carrying amount	19,101	2,074	-	-	-	21,175
At 30 June 2007						
Cost (gross carrying amount)	-	3,380	1,186	6,400	51,535	62,501
Accumulated amortisation	-	(631)	(169)	-	-	(800)
Net carrying amount	-	2,749	1,017	6,400	51,535	61,701

A description of each intangible asset is provided in section (b) of this note. For details of impairment, refer to section (c) of this note.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

16 NON CURRENT ASSETS - INTANGIBLE ASSETS AND GOODWILL (continued)

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Distribution Agreement and Distribu- tion Rights	PARENT Dossier Costs and Licence Agreements	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2007			
At 1 July 2006, net of accum.amortisation	19,101	2,074	21,175
Additions	-	45	45
Acquisition of a subsidiary (note 27)	-	-	-
Disposals	-	-	-
Impairment (c)	(16,697)	(1,936)	(18,633)
Amortisation	(2,404)	(110)	(2,514)
At 30 June 2007, net of accumulated amortisation	-	73	73
At 30 June 2006			
Cost (gross carrying amount)	24,041	2,089	26,130
Accumulated amortisation	(4,940)	(15)	(4,955)
Net carrying amount	19,101	2,074	21,175
At 30 June 2007			
Cost (gross carrying amount)	-	150	150
Accumulated amortisation	-	(77)	(77)
Net carrying amount	-	73	73
A description of each intangible asset is provided in section (b) of this note.			
For details of impairment, refer to section (c) of this note.			
Year ended 30 June 2006			
At 1 July 2005, net of accum.amortisation	21,505	1,009	22,514
Additions	-	1,080	1,080
Amortisation	(2,404)	(15)	(2,419)
At 30 June 2006, net of accumulated amortisation	19,101	2,074	21,175
At 1 July 2005			
Cost (gross carrying amount)	24,041	1,009	25,050
Accumulated amortisation	(2,536)	-	(2,536)
Net carrying amount	21,505	1,009	22,514
At 30 June 2006			
Cost (gross carrying amount)	24,041	2,089	26,130
Accumulated amortisation	(4,940)	(15)	(4,955)
Net carrying amount	19,101	2,074	21,175

16 NON CURRENT ASSETS - INTANGIBLE ASSETS AND GOODWILL (continued)

(b) Description of the Group's intangible assets and goodwill

Distribution Agreement and Distribution Rights

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

Dossier Costs and Licence Agreements

Dossier costs and licence agreements are expensed as incurred except where future benefits are expected, beyond any reasonable doubt. Where dossier costs and licence agreements are deferred, costs are amortised over their expected useful lives of a period of two to five 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.

Supply Agreement

The supply agreement has been acquired through a business combination and is carried at fair value less any accumulated impairment losses. This intangible asset has been determined to have a finite useful life of seven years and is being amortised accordingly.

Trademarks

The trademarks have been acquired through a business combination and are carried at fair value less any accumulated impairment loss. This intangible asset has been determined by the Group to have an indefinite useful life.

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis and whenever there is an indication of impairment.

(c) Impairment losses recognised

Distribution Agreement and Distribution Rights

A mutual Deed of Settlement terminating the Distribution Agreement and Distribution Rights with Genepharma Asia Pacific Enterprises Limited was signed on 27 August 2007 (subject to shareholder approval). Taking into account this Deed of Settlement, the Distribution Agreement and Distribution Rights intangible asset was reviewed by the Group and found to be fully impaired.

Dossier Costs

Dossier costs in relation to the Distribution Agreement and Distribution Rights with Genepharma Asia Pacific Enterprises Limited have been assessed by the Group to be fully impaired as a consequence of the Deed of Settlement (detailed above).

(d) Impairment Tests for goodwill and intangibles with indefinite useful lives

Description of the cash generating units and other relevant information

Goodwill acquired through business combinations is tested for impairment at the cash generating unit level, which is the consolidated entity.

The trademarks, dossiers and licenses have been individually tested for impairment.

The recoverable amount of the intangible assets have been determined based on a value in use calculation using cash flow projections based on financial forecasts provided by senior management over a five year period.

The pre-tax discount rate applied to cash flow projections is 17.9% and cash flows beyond the five-year period are extrapolated using a 2.5% growth rate.

The calculation of value in use is most sensitive to the following assumptions:

- sales growth rate used during budget period;
- gross margins;
- discount rate

Sales growth rate estimates - based on management's assessment of sales growth, incorporating expected changes in market share, dossiers and licenses purchased that related products for are yet to be sold and regulatory changes.

Gross margins - based on average values achieved historically and adjusted for any expected changes in supplier pricing and known PBS changes to wholesale pricing.

Discount rates - discount rates reflect management's estimate of the time value of money and the risks specific to the cash generating unit.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED	PARENT	
	2007	2007	2006
	\$'000	\$'000	\$'000
17 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES			
Trade payables	11,322	194	2,354
Other payables	3,945	1,146	731
GST	384	(41)	58
	15,651	1,299	3,143

Trade payables and other payables are non-interest bearing and are generally settled on 30 to 90 day terms.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

18 CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

Interest bearing liabilities - convertible notes	12,324	12,324	-
Convertible notes - issue costs	(27)	(27)	-
Convertible notes - accrued interest	912	912	-
	13,209	13,209	-

The convertible notes were issued for a period of five years, at a coupon interest rate of 3% per annum, compounding daily. The convertible notes were redeemable after 2 July 2007. Refer to note 31 *Events After Balance Sheet Date*.

19 CURRENT LIABILITIES - PROVISIONS

Employee entitlements - Annual leave

Opening balance	155	155	29
Acquisition of subsidiary	216	-	-
Arising during the year	532	89	142
Utilised during the year	(491)	(101)	(16)
	412	143	155

20 NON-CURRENT LIABILITIES - PROVISIONS

Employee entitlements - Long Service Leave

Opening balance	-	-	-
Acquisition of subsidiary	65	-	-
Arising during the year	20	-	-
Utilised during the year	(4)	-	-
	81	-	-

21 CONTRIBUTED EQUITY

Ordinary shares

Issued and fully paid

	CONSOLIDATED		PARENT	
	2007	2007	2007	2006
	Thousands	Thousands	Thousands	Thousands
	139,258	139,258	87,492	

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movement in ordinary shares on issue

At 1 July 2005

Equity raising via Placement of ordinary shares

Transaction costs associated with the Placement and Rights Issue

At 1 July 2006

Equity raising via Rights Issue

Transaction costs associated with the Placement and Rights Issue

Shares issued to staff

At 30 June 2007

	Thousands	Total \$'000
At 1 July 2005	76,080	35,650
Equity raising via Placement of ordinary shares (i)	11,412	11,412
Transaction costs associated with the Placement and Rights Issue (ii)	-	(166)
At 1 July 2006	87,492	46,896
Equity raising via Rights Issue (i)	51,691	51,691
Transaction costs associated with the Placement and Rights Issue (ii)	-	(1,609)
Shares issued to staff (iii)	75	75
At 30 June 2007	139,258	97,053

(i) On 13 July 2006 the Company acquired 100% of the issued shares of Douglas Pharmaceuticals Australia Limited.

The acquisition was funded by a Placement of 11,412,000 \$1 shares and a Renounceable Rights Issue of 51,691,600 \$1 shares.

(ii) The transaction costs represent the costs associated with the Placement and the Rights Issue, net of tax impact.

(iii) 58,228 and 16,500 \$1 shares were issued to staff at no consideration.

Convertible notes

At 1 July 2006

Issue of convertible notes - equity value

At 30 June 2007

	CONSOLIDATED		PARENT	
	2007	2007	2007	2006
	\$'000	\$'000	\$'000	\$'000
At 1 July 2006	-	-	-	-
Issue of convertible notes - equity value (i)	2,669	2,669	-	-
At 30 June 2007	2,669	2,669	-	-

(i) Refer Note 2(n) for allocation methodology

Share options

The company has a share option scheme under which options to subscribe for the company's shares have been granted to executive directors, senior managers and certain members of staff (refer note 26).

The company has a share option scheme under which options to subscribe for the company's shares will be granted to Eligible Participants of the Company's loyalty programme - Wealth Option Winners (WOW) (refer note 26).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

22 RESERVES

	CONSOLIDATED		
	Employee Equity Benefits Reserve	Loyalty Programme Equity Benefits Reserve	Total
	\$'000	\$'000	\$'000
At 1 July 2006	1,644	92	1,736
Recognition of share based payment expense	193	269	462
At 30 June 2007	1,837	361	2,198

	PARENT		
	Employee Equity Benefits Reserve	Loyalty Programme Equity Benefits Reserve	Total
	\$'000	\$'000	\$'000
At 1 July 2005	889	-	889
Recognition of share based payment expense	755	92	847
At 30 June 2006	1,644	92	1,736
Recognition of share based payment expense	193	269	462
At 30 June 2007	1,837	361	2,198

Nature and purpose of reserves

Employee equity benefits reserve

The employee share option and share plan reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 26 for further details of these plans.

Loyalty Programme equity benefits reserve

The Loyalty Programme equity benefits reserve is used to record the value of equity benefits provided to eligible participants of the Loyalty Programme Scheme. Refer to note 26 for further details of these plans.

23 CASHFLOW STATEMENT RECONCILIATION

	CONSOLIDATED		PARENT	
	2007	2007	2007	2006
	\$'000	\$'000	\$'000	\$'000
(a) Reconciliation from the net loss after tax to the net cash flows from operating activities				
Net loss	(17,962)	(22,321)	(5,601)	
<i>Adjustments for:</i>				
Impairment and write-off of intangible assets	18,461	18,461	-	
Depreciation	325	113	26	
Amortisation	2,915	2,514	2,419	
Share options expensed	462	462	847	
Net exchange differences	14	50	-	
Share capital issued	75	75	-	
Interest expense - Convertible Notes	924	922	-	
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	(2,056)	1,434	(1,403)	
(Increase)/decrease in related party receivables	-	(5,144)	-	
(Increase)/decrease in inventories	(3,771)	1,870	(1,870)	
(Decrease)/increase in inventory provision	(591)	-	-	
(Increase)/decrease in deferred tax assets	(789)	(1,158)	-	
(Decrease)/increase in current tax liability	215	314	-	
(Increase)/decrease in other assets	(160)	46	(982)	
(Decrease)/increase in trade and other payables	6,724	(1,351)	2,934	
(Decrease)/increase in employee provisions	58	(12)	125	
Net cash from/(used) in operating activities	4,844	(3,725)	(3,505)	
(b) Non-cash financing and investing activities				
Convertible notes issues	15,000	15,000	-	
Share-based payments	462	462	847	
Issue of shares to employees	75	75	-	
	15,537	15,537	847	

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

24 RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statement for the current financial year include the financial statements of Genepharm Australasia Limited and the subsidiary listed in the following table.

Name	Country of Incorporation	% Equity Interest		Investments (\$'000)	
		2007	2006	2007	2006
Genepharm Limited	New Zealand	100	-	44,140	-

(b) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 25.

(c) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

PARENT

Subsidiary:

	Sales to related parties \$'000	Other transactions with related parties \$'000
Sale of pharmaceutical products	1,523	-
Interest on loan accounts	-	1,143
Current tax payable assumed from wholly owned tax consolidated subsidiary	-	2,304

Key Management Personnel:

Details of related party transactions with key management personnel are included in note 25

(d) Loans to subsidiaries

During the year loans totalling (net) \$33,250,796 were made by Genepharm Australasia Limited to Genepharm Limited. The majority of these loans were in relation to payment of debts owing to Douglas Holdings International Limited on the acquisition of Douglas Pharmaceuticals Australia Limited (now Genepharm Limited) on 13 July 2006.

25 KEY MANAGEMENT PERSONNEL REMUNERATION

(a) Details of key management personnel

(i) Directors

T.J.R. O'Brien	Chairman (independent, non-executive)
D. Bastas	Managing Director and Chief Executive Officer
G.R. Harding	Executive Director - Finance and Investment
W.J. Jenkins	Director (independent, non-executive) - appointed 7 February 2007
A.N. Vigopoulos	Director (non-executive)

(ii) Executives

S.L. Blank	General Manager, Strategy and Development - appointed 30 October 2006
J. Dal Santo	Company Secretary
K. Doran	Marketing Manager - resigned 17 May 2007
M. Hutchings	Regulatory Services Manager - employment ended 23 March 2007
K. Jeffs	Sales and Marketing Manager - resigned 30 June 2007
B. Renwick	Business Development Manager
C. Van Nierkerk	Chief Operations Officer - resigned 31 January 2007

Other changes of key management personnel between the reporting date and the date the financial report was authorised for issue are as follows:

B. Renwick	Business Development Manager - resigned 17 August 2007
M. Story	Chief Operations Officer - appointed 16 July 2007

(b) Compensation of key management personnel

	CONSOLIDATED		PARENT	
	2007	2007	2007	2006
	\$'000	\$'000	\$'000	\$'000
Short-term employee benefits	2,742	2,211	1,139	
Post-employment benefits	228	191	88	
Share-based payment	123	123	608	
	3,093	2,525	1,835	

Genepharma Australasia Limited has applied the option under the Corporations Amendments Regulations 2006 to transfer key management personnel remuneration disclosures required by AASB 124 Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' report. These transferred disclosures have been audited.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

25 KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

(c) Option holdings of key management personnel (consolidated)

30 June 2007	Balance at 01-Jul-06	Granted as Remuneration	Net Change Other #	Balance at 30-Jun-07	Not Vested & Not Exercisable	Vested & Exercisable
Directors						
D. Bastas	1,800,000	-	-	1,800,000	-	1,800,000
G.R. Harding	1,500,000	-	-	1,500,000	-	1,500,000
Executives						
S.L. Blank	-	250,000	-	250,000	250,000	-
K. Jeffs	1,050,000	-	(350,000)	700,000	-	700,000
B. Renwick	300,000	-	-	300,000	200,000	100,000

30 June 2006	Balance at 01-Jul-05	Granted as Remuneration	Net Change Other	Balance at 30-Jun-06	Not Vested & Not Exercisable	Vested & Exercisable
Directors						
D. Bastas	1,800,000	-	-	1,800,000	600,000	1,200,000
G.R. Harding	1,500,000	-	-	1,500,000	500,000	1,000,000
Executives						
K. Jeffs	1,050,000	-	-	1,050,000	700,000	350,000
B. Renwick	-	300,000	-	300,000	300,000	-

25 KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

(d) Shareholdings of key management personnel (consolidated)

Shares held in Genepharma Australasia Limited

30 June 2007	Balance at 01-Jul-06	Net Change Other	Balance at 30-Jun-07
<i>Directors</i>			
T.J.R. O'Brien	604,000	233,467	837,467
D. Bastas	6,880,000	-	6,880,000
G.R. Harding	3,040,000	-	3,040,000
A.N. Vigopoulos #	28,800,000	-	28,800,000
<i>Executives</i>			
S.L. Blank	20,000	884	20,884
J. Dal Santo	-	884	884
K. Jeffs	60,000	-	60,000
B. Renwick	-	884	884
30 June 2006			
<i>Directors</i>			
T.J.R. O'Brien	604,000	-	604,000
D. Bastas	6,880,000	-	6,880,000
G.R. Harding	3,040,000	-	3,040,000
A.N. Vigopoulos #	28,800,000	-	28,800,000
<i>Executives</i>			
K. Jeffs	60,000	-	60,000

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Indicates relevant interest shareholding via a director related entity

(e) Other transactions with Key Management Personnel and their related parties

During the year Genepharma Australasia Limited paid Futuristic Planning Pty Ltd, a related entity of W.J. Jenkins, the sum of \$55,000 in relation to consulting services provided to Genepharma Limited.

During the year Genepharma Australasia Limited paid JDS Advisory Services, a related entity of J. Dal Santo, the sum of \$394,165 (2006: \$54,188) in payment for professional services related to activities undertaken by the company and other contracted third parties during the year. These activities included predominantly transactional services related to the due diligence process in the acquisition of Douglas Pharmaceuticals Australia Limited, preparation of the Rights Issue documentation for completion of the capital raising for the acquisition of Douglas Pharmaceuticals Australia Limited, preparation of the annual and half year reports and other reports required by the Australian Stock Exchange (Appendices 4C, 4E and 4D) and other services related to the financial and reporting requirements of the company.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

26 SHARE BASED PAYMENT PLANS

(a) Senior Manager Share Option Plan (SMSOP)

A senior manager share option plan has been established where Genepharma Australasia Limited may, at the discretion of the Board of Directors, grant options over the ordinary shares of Genepharma Australasia Limited to executive directors, senior managers and certain members of staff. The options, issued for nil consideration, are granted in accordance with guidelines established by the directors of Genepharma Australasia Limited. The options are issued for a term of three years and are exercisable at varying dates. The options cannot be transferred and will not be quoted on the ASX.

During the year \$193,205 has been recognised as the share based expense under SMSOP (2006: \$755,264).

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, weighted average fair value (WAFV) of and movements in share options issued during the year.

	<u>2007</u>			<u>2006</u>		
	No.	WAEP \$	WAFV \$	No.	WAEP \$	WAFV \$
Outstanding at the beginning of the year	5,970,000	1.49	0.33	5,000,000	1.46	0.36
- granted	250,000	1.00	0.25	970,000	1.60	0.18
- forfeited	(530,000)	1.58	0.37	-		
Balance at end of year	5,690,000	1.47	0.33	5,970,000	1.49	0.33
Exercisable at end of year	4,963,334	1.44	0.35	2,766,667	1.26	0.40

The fair value of the options issued under SMSOP are estimated at the date of grant using the Binomial Valuation Method. The following table gives the assumptions made in determining fair value of options granted during the years ending 30 June 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Dividend per share (cents)	3.05 - 5.50	3.05 - 5.50
Expected volatility (%)	35.0%	37.5%
Risk free interest rate (%)	6.13%	5.25%
Expected life of the options (years)	1.9	2.3 - 4.7
Option exercise price (\$)	\$1.00	\$1.06 - \$2.00
Share price at grant date (\$)	\$1.01	\$0.89 - \$1.41

When calculating the expected life of the options it is assumed the options will be exercised at the mid-point between vesting date and the expiry date. The expected volatility rates used reflect the assumption that historical volatility is indicative of future trends and may not necessarily be the actual outcome.

Other than the assumptions outlined above no other features of the options granted were incorporated into the measurement of fair value.

During the year ended 30 June 2007 no options were exercised over ordinary shares.

The weighted average contractual life for the share options outstanding as at 30 June 2007 is 2.1 years (2006: 3.18 years).

26 SHARE BASED PAYMENT PLANS (continued)

(b) Pharmacy Loyalty Programme Share Options Plan

A pharmacy loyalty programme share option plan has been established where Genepharma Australasia Limited may, at the discretion of the Board of Directors, grant options over the ordinary shares of Genepharma Australasia Limited to Eligible Participants. The options are issued for a term of three years and are exercisable at varying dates. The options cannot be transferred and will not be quoted on the ASX.

During the year \$268,572 has been recognised as the share based expense under the Pharmacy Loyalty Programme Share Options Plan (2006: \$91,842).

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, weighted average fair value (WAFV) of and movements in share options issued during the year.

	<u>2007</u>			<u>2006</u>		
	No.	WAEP \$	WAFV \$	No.	WAEP \$	WAFV \$
Balance at beginning of year	148,282	0.50	0.61	-	-	-
- adjustments to opening balance #	(52,979)	0.50	0.61	-	-	-
- granted *	<u>1,138,520</u>	0.53	0.26	<u>148,282</u>	0.50	0.61
Balance at end of year	<u>1,233,823</u>	0.53	0.29	<u>148,282</u>	0.50	0.61
Exercisable at end of year	<u>1,233,823</u>	0.53	0.29	<u>-</u>	-	-

The fair value of the options issued under the plan are estimated at the date of grant using the Binomial Valuation Method. The following table gives the assumptions made in determining fair value of options granted during the years ending 30 June 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Dividend per share (cents)	0.00 - 6.10	0.00 - 3.05
Expected volatility (%)	35.0% - 40.0%	37.5%
Risk free interest rate (%)	6.18% - 6.44%	5.795%
Expected life of options (years)	1.0	1.5
Option exercise price (\$)	\$0.50 - \$0.55	\$0.50
Share price at grant date (\$) *	\$0.52 - \$1.00	\$1.07

When calculating the expected life of the options it is assumed the options will be exercised at the mid-point between vesting date and the expiry date. The expected volatility rates used reflect the assumption that historical volatility is indicative of future trends and may not necessarily be the actual outcome.

Other than the assumptions outlined above no other features of the options granted were incorporated into the measurement of fair value.

During the year ended 30 June 2007 no options were exercised over ordinary shares.

The weighted average contractual life for the share options outstanding as at 30 June 2007 is 1.76 years (2006: 2.50 years).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

26 SHARE BASED PAYMENT PLANS (continued)

(b) Pharmacy Loyalty Programme Share Options Plan (continued)

In valuing the cost of the options a maximum number of options is assumed to be taken up each semester under the terms of the scheme. Once Entitlement and Application forms have been lodged the number of options is adjusted to reflect the total number applied for.

* The scheme is subject to lodgement of Entitlement and Application forms by entitlement holders. As such, no options have been physically granted by the end of the financial year. The cost of the options, although not yet granted, have been taken into account in the financial reports for the years ended 30 June 2007 and 2006.

(c) Advisory Board Share Option Scheme

On 15 November 2004 options were issued over ordinary shares, vesting on 1 December 2005 and exercisable up to 1 December 2008. At the end of the year there were 100,000 unissued ordinary shares in respect of which options were outstanding under this scheme.

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, weighted average fair value (WAFV) of and movements in share options issued during the year.

	2007			2006		
	No.	WAEP	WAFV	No.	WAEP	WAFV
		\$	\$		\$	\$
Balance at beginning of year	100,000	1.00	0.16	400,000	1.75	0.07
- granted	-	-	-	-	-	-
- forfeited	-	-	-	(300,000)	2.00	0.04
Balance at end of year	<u>100,000</u>	1.00	0.16	<u>100,000</u>	1.00	0.16
Exercisable at end of year	<u>100,000</u>	1.00	0.16	<u>100,000</u>	1.00	0.16

The fair value of the options issued under scheme are estimated at the date of grant using the Binomial Valuation Method. No additional options were granted during the years ending 30 June 2007 and 2006 under the scheme. During the year ended 30 June 2007 nil options were exercised over ordinary shares (2006: nil).

The weighted average contractual life for the share options outstanding as at 30 June 2007 is 1.42 years (2006: 2.42 years).

27 BUSINESS COMBINATIONS

Acquisition of Douglas Pharmaceuticals Australia Limited

On 13 July 2006, Genepharm Australasia Limited acquired 100% of the issued shares of Douglas Pharmaceuticals Australia Limited (now Genepharm Limited), an unlisted New Zealand registered company domiciled in Australia involved in the marketing, sales and distribution of a range of pre-prescription medicines, over the counter and dermo-cosmetic products to pharmacies.

The total cost of the acquisition was \$71,498,540 and comprised a cash payment to and convertible notes issued to the vendor and costs directly attributable to the acquisition.

The fair value of the identifiable assets and liabilities of Douglas Pharmaceuticals Australia Limited as at the date of acquisition are:

	CONSOLIDATED	
	Recognised on acquisition \$'000	Carrying value \$'000
	<hr/>	<hr/>
Property, plant and equipment	583	583
Deferred tax asset	223	223
Cash and cash equivalents	2,947	2,947
Trade receivables	8,779	8,779
Prepayments	177	177
Inventories	5,346	5,346
Intangible assets	3,010	1,825
Trademarks	6,400	8,000
Other	58	58
	<hr/>	<hr/>
	27,523	27,938
Trade payables	5,592	5,592
Employee provisions	280	280
GST payable	479	479
Income tax payable	281	281
Deferred tax liability	927	927
	<hr/>	<hr/>
	7,559	7,559
Fair value of identifiable net assets	19,964	20,379
Goodwill arising on acquisition	51,535	
	<hr/>	
	71,499	
Cost of the combination:		
Cash consideration	55,000	
Convertible notes issued	15,000	
Costs associated with the acquisition	1,499	
	<hr/>	
	71,499	
	<hr/>	

In accordance with Accounting Standards, the Convertible Notes have been split into liability and equity components. The liability component comprises \$12.3 million and the equity component comprises \$2.7 million. The liability component was determined by discounting the face value of the Convertible Notes at the effective market interest rate at the date of issue. The residual value has been classified as equity.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

27 BUSINESS COMBINATIONS (continued)

Acquisition of Douglas Pharmaceuticals Australia Limited (continued)

	<u>\$'000</u>
The net cash outflows of the acquisition were as follows:	
Cash from acquired business	2,947
Cash payment for acquisition	(55,000)
Costs associated with the acquisition	(1,207)
	<u>(53,260)</u>

The acquisition agreement provided for certain pre acquisition liabilities to be settled out of the consideration as follows:

Consideration	70,000
Loans from Douglas International Holdings Limited repaid	(25,316)
Provision for income tax payable	(2,043)
	<u>42,641</u>
Costs associated with the acquisition	1,499
Carrying value of investment (eliminated on consolidation)	<u>44,140</u>

From the date of acquisition, Douglas Pharmaceuticals Australia Limited has contributed \$4,667,215 to the net profit of the Group.

If the combination had taken place at the beginning of the financial year, the loss from continuing operations for the Group would have been \$17,714,219 and revenue from continuing operations would have been \$56,471,807.

28 FAIR VALUE AND INTEREST RATE RISK

(a) Fair values

All assets and liabilities recognised in the balance sheet, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

(b) Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

Year ended 30 June 2007	<1year \$'000	>1 year \$'000	Total \$'000	Weighted Average Interest Rate
CONSOLIDATED				
FINANCIAL ASSETS				
<i>Floating rate</i>				
Cash assets	13,460	-	13,460	5.57%
FINANCIAL LIABILITIES				
<i>Fixed rate</i>				
Convertible Notes	(15,000)	-	(15,000)	3.0%
PARENT				
FINANCIAL ASSETS				
<i>Floating rate</i>				
Cash assets	3,608	-	3,608	6.15%
Year ended 30 June 2006	<1year \$'000	>1 year \$'000	Total \$'000	Weighted Average Interest Rate
PARENT				
FINANCIAL ASSETS				
<i>Floating rate</i>				
Cash assets	14,989	-	14,989	5.56%

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group and Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise Convertible Notes and cash and short-term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are fair value interest rate risk, foreign currency risk and credit risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Fair value interest rate risk

As the Group holds a fixed rate debt in the form of Convertible Notes, there is a risk that the economic value of the financial instrument will fluctuate because of changes in market interest rates. The level of fixed rate debt is disclosed in note 18. This risk has been mitigated due to the redemption of the Convertible Notes on 17 August 2007 (note 31).

Foreign currency risk

As a result of purchases of inventory in Euro, US dollars and New Zealand dollars, the Group's balance sheet may be effected by movements in exchange rates. The Group monitors currency movements and, at the time of preparation of this report, is in the process of instigating a treasury policy with regards to foreign currency management. The total Group foreign exchange gain for the financial year ended 30 June 2007 was \$14,157 (2006: \$50,031).

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk is minimal.

Since the Group trades only with recognised, credit worthy third parties, there is no requirement for collateral.

	CONSOLIDATED		PARENT	
	2007	2007	2006	
	\$'000	\$'000	\$'000	

30 COMMITMENTS AND CONTINGENCIES

Operating Leases (non-cancellable):

Minimum lease payments

– not later than one year	655	95	94
– later than one year and not later than five years	1,393	-	88
	<u>2,048</u>	<u>95</u>	<u>182</u>

The non-cancellable operating leases represents the rental premises and have lease terms of between two and five years and an average implicit interest rate of 4%.

Operating Leases (cancellable):

Minimum lease payments

– not later than one year	79	71	66
– later than one year and not later than five years	282	257	169
	<u>361</u>	<u>328</u>	<u>235</u>

The cancellable operating leases represent novated and operating leases on employee packaged vehicles and have lease terms of three to four years.

There are no contingent liabilities as at 30 June 2007 (2006: nil).

31 EVENTS AFTER BALANCE SHEET DATE

The Company has finalised an Deed of Settlement with Genepharm Asia Pacific Enterprises Limited (GAPE) to terminate their exclusive product supply agreement (Agreement) by mutual consent. This Deed for mutual termination and releases is subject to shareholder approval and allows Genepharm Australasia to source pharmacy products unencumbered by the Agreement formed before Genepharm Australasia Limited listed on the Australian Stock Exchange in June 2004. As a consequence of the termination of the Agreement, Genepharm Australasia will write-off all of the intangible asset value of the Agreement and its associated costs of \$18.46 million, of which \$16.7 million is the write off of the remaining non-cash intangible balance sheet value of the Agreement.

On 2 July 2007 the Company was given notice by Douglas International Holdings Ltd of its intention to exercise its rights of redemption under the terms of the Convertible Note Deed. The Notes were subsequently redeemed in full on 17 August 2007 as follows:

Redemption of Convertible Notes	15,000
Payment of accumulated interest	<u>501</u>
	<u>15,501</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED	PARENT	
	2007	2007	2006
	\$'000	\$'000	\$'000

32 AUDITORS' REMUNERATION

The auditor of Genepharma Australasia Limited is Ernst & Young

Amounts received or due and receivable by Ernst & Young (Australia) for:

Audit and review of the financial report of the entity and any other entity in the consolidated group	211	211	63
Other services in relation to the entity and any other entity in the consolidated group			
- tax advice	2	2	-
- due diligence	36	36	-
	<u>249</u>	<u>249</u>	<u>63</u>

Directors' Declaration

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

- 1 In the opinion of the directors:
 - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (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.
- 2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2007.

On behalf of the Board

A handwritten signature in black ink, appearing to be 'Dennis Bastas', with a long horizontal stroke extending to the right.

Dennis Bastas
Managing Director

Melbourne, 26 September, 2007

Independent auditor's report to the members of Genepharm Australasia Limited

We have audited the accompanying financial report of Genepharm Australasia Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 Related Party Disclosures ("remuneration disclosures"), under the heading "Remuneration Report" on pages 23 to 27 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

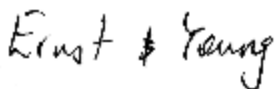
Independence

In conducting our audit we have met the independence requirements of 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. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Genepharma Australasia Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Genepharma Australasia Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2
3. the remuneration disclosures that are contained on pages 23 to 27 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



David Petersen
Partner
Melbourne
26 September 2007

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 24 September 2007.

(a) Distribution of equity securities

(i) Ordinary share capital

139,258,328 fully paid ordinary shares are held by 2,749 individual shareholders

All issued ordinary shares carry one vote per share and carry the rights to dividends

(ii) Options

6,396,640 Options are held by 689 individual option holders

Options do not carry a right to vote

The number of shareholders, by size of holding, in each class of share is:

	Fully paid ordinary shares	Options
1 - 1,000	246,747	2,904,424
1,001 - 5,000	2,653,775	192,216
5,001 - 10,000	5,278,705	-
10,001 - 100,000	28,297,645	-
100,000 and over	102,781,456	3,300,000
	<hr/> 139,258,328	<hr/> 6,396,640
Holding less than a marketable parcel	129,747	

(b) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Listed ordinary shares	
	Number of shares	Percentage of ordinary shares
I-Investments Pty Ltd	6,970,000	5.01%

(c) Twenty largest shareholders

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Genepharma Asia Pacific Enterprises Limited	7,200,000	5.17%
2	Pelaro Trading Limited	7,200,000	5.17%
3	Relio Holdings Limited	7,200,000	5.17%
4	Tofino Enterprises Limited	7,200,000	5.17%
5	I-Investments Pty Ltd	6,970,000	5.01%
6	Blue Lagoon International Corporation	6,780,000	4.87%
7	Mandriola Investments Limited	6,220,000	4.47%
8	National Nominees Limited	3,200,910	2.30%
9	UBS Nominees Pty Ltd	3,131,475	2.25%
10	Bora Bora Holdings Pty Ltd	3,040,000	2.18%
11	HSBC Custody Nominees (Australia) Limited	2,644,805	1.90%
12	Perpetual Trustee Company Ltd	2,560,000	1.84%
13	Berne No 132 Nominees Pty Ltd	2,384,558	1.71%
14	Tynong Pastoral Co Pty Ltd	2,243,667	1.61%
15	Mr Stuart James Hercules	2,210,000	1.59%
16	Idameneo (No 123) Pty Ltd	2,172,923	1.56%
17	UBS Wealth Management Australia Nominees Pty Ltd	2,054,458	1.48%
18	Annamaki Pty Ltd	1,744,533	1.25%
19	ANZ Nominees Limited	1,138,405	0.82%
20	Gaspar Superannuation Fund Pty Ltd	993,167	0.71%
		<u>78,288,901</u>	<u>56.22%</u>

