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# GENEPHARM AUSTRALASIA LIMITED ANNUAL REPORT

For the year ended 30 June 2005

## Corporate Information

ABN 52 107 340 367

### Directors

T.J.R. O'Brien (Chairman)  
D. Bastas (Chief Executive Officer)  
G.R. Harding (Chief Financial Officer)  
A.N. Vigopoulos  
K. Lianas

### Company Secretary

G.R. Harding

### Registered Office

Level 1, 263 City Road  
Southbank VIC 3006

### Solicitors

Deacons

### Auditors

Ernst & Young

### Bankers

ANZ Bank

### Share Register

Computershare Investor Services Pty Ltd  
Yarra Falls, 452 Johnstone Street  
Abbotsford VIC 3067  
1300 85 05 05

### Internet Address

[www.genepharm.com.au](http://www.genepharm.com.au)





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## Review by Chairman and CEO

In our first full year annual report, we are pleased to announce that Genepharm Australasia has met all its key product development milestones and made substantial progress in its distribution, sales and marketing programs for initial product launch in 2006.

After a successful IPO in June 2004, Genepharm immediately began its drug development program. Supported strongly by the Genepharm Group, the Company completed the TGA drug file development of fifteen leading generic drugs in the twelve months to July 2005. TGA registration of these drugs is currently in progress and all are expected to be available for sale by the end of 2006.

With a solid first year of drug development behind it, Genepharm expects to meet the forecast target of 40-50 generic drug submissions to the TGA in the first three years of operations to July 2007. This will provide the Company with a product range of the biggest selling generic drugs and create a sustainable platform for Genepharm's growth and profit expectations.

Agreements and systems were established during the year to provide distribution access for Genepharm's products to retail pharmacies and hospitals across Australia. The Company has entered into retail pharmacy distribution agreements with API, Mayne and Sigma and hospital distribution agreements with the two leading hospital distributors, Clifford Hallam/HSA and Cottmans Australia.

The Board and management of the Company while focussed on delivering operational milestones have also been able to produce a lower than expected cash outflow by diligently managing the Company's cash position. Current cash reserves are expected to be sufficient to meet the Company's needs.

Genepharm is now poised to enter the market in 2006 with a sales and marketing strategy that will uniquely position the Company with Australian pharmacists. The four key elements of that strategy are built around the Company's core product development infrastructure and are based on a commercial relationship with pharmacies that will provide a competitive and sustainable model of value, service, customer care and equity.

Along with the Company's operational performance, the Australian pharmaceutical industry was marked by a number of changes this year which have driven an increased focus on generic drug substitution and created a growing awareness of their market value. This combination of operational and market performance saw the Company's sharemarket performance listed by Deloitte<sup>1</sup> as one of the Top 10 performing IPO's for 2004.

On behalf of Genepharm Australasia we thank you for your support and look forward to continuing our goal of providing value to all our stakeholders and again achieving all our milestones in financial year 2006.



Tom O'Brien  
Chairman



Dennis Bastas  
CEO/Managing Director

<sup>1</sup> Deloitte IPO Report, December 2004

# Business Overview

## The Company

Geneparm Australasia is an 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.

## Operational Highlights

- Experienced regulatory and pharmaceutical sales personnel employed
- 15 new generic drug files completed with over \$1 billion market sales
- Distribution agreements finalised with the leading pharmacy and hospital distributors for Australia wide customer access
- First TGA registrations expected by end calendar year 2005
- Retail pharmacy sales to begin in April 2006

## Financial Summary 2005

Drug Development Investment	\$ 1.008 million
Net Cash Outflow	\$ 2.244 million
EBITDA	(\$ 1.253 million)
Cash at Bank (30th June 2005)	\$ 8.472 million



## Product Range and Pipeline

Genepharm Australasia began its drug development program in July 2004. In its first twelve months Genepharm completed the development and TGA submissions of 15 drug registration files.

The first 15 drug submissions to the TGA involved 5 anti-cancer injectable drugs and 10 oral tablet formulations. The total dispensed sales value of the drugs submitted was over \$1 billion. Included were the following 4 leading market drugs:

- **Simvastatin** – A lipid (cholesterol) lowering medicine that is Australia's second largest selling prescription pharmaceutical with \$392m in total dispensed sales value on the PBS for the 12 months to 30 June 2005. Patent expires July 2005. Simvastatin represents the biggest pharmaceutical patent expiry by global market value.
- **Pravastatin** – A lipid (cholesterol) lowering medicine with \$126m in total dispensed sales value on the PBS for the 12 months to 30 June 2005. Patent expires June 2006.
- **Sertraline** – An antidepressant that is Australia's largest selling product in this category with \$97m in total dispensed sales value on the PBS for the 12 months to 30 June 2005. Patent expires October 2005.
- **Paclitaxel** – A specialist anti-cancer drug that is the leading hospital oncology injectable in Australia, used primarily in the treatment of breast, ovarian and lung cancers.



Genepharm is on track to complete 40-50 drug submissions to the TGA by July 2007 which will give the Company a drug sales range by December 2008 that will account for over 90% of the total market value of generic drug sales or an estimated \$1.7 billion. The final 10% of the market is made up by a long tail of over 150 other minor generic drugs.

More importantly Genepharm's focus is to be a leading supplier of the top 10 generic PBS drugs that will be patent expired by 2009 and account for \$1 billion in wholesale drug sales. (see table on page 18) A key component of this goal is our in-house access to development and manufacturing capabilities for these drugs which will provide the Company with a significant marketing and margin advantage over our competitors.

Genepharm Group has completed development of the drug registration files for 8 of these top 10 products with the remaining two to be completed by the end of 2006.



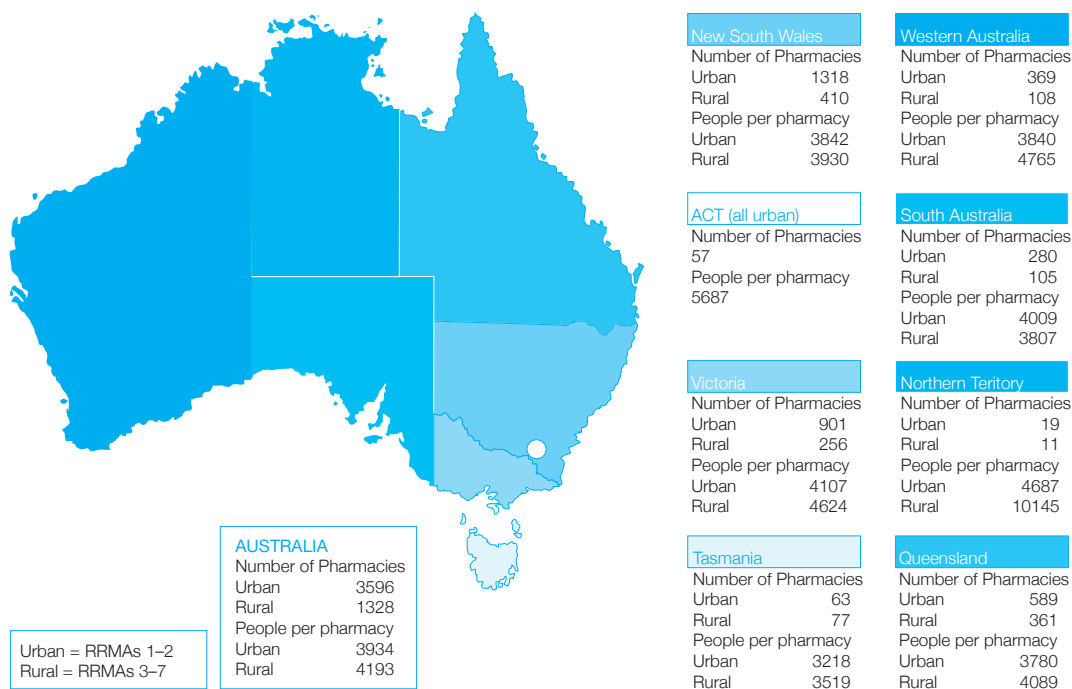
## Distribution

Genepharm Australasia entered into distribution agreements during the year with the three major pharmacy distributors and the two key hospital distributors to provide national distribution coverage for its pharmacy and hospital product lines.

Between them the three major pharmacy distributors, Australian Pharmaceutical Industries (API), Mayne and Sigma have wholesale distribution arrangements with every pharmacy in Australia. Genepharm’s agreements with these three distributors will allow our customer pharmacies to conveniently order our drugs and receive an unmatched level of delivery service.

Genepharm’s anti-cancer hospital drugs will be distributed to the national hospital system through our agreements with Clifford Hallam/HSA and Cottman Australia. Clifford Hallam/HSA is the largest supplier of hospital pharmacy products in New South Wales, Victoria, Queensland and Tasmania, while Cottman Australia has the dominant hospital supply market position in Western Australia, South Australia and the Northern Territory.

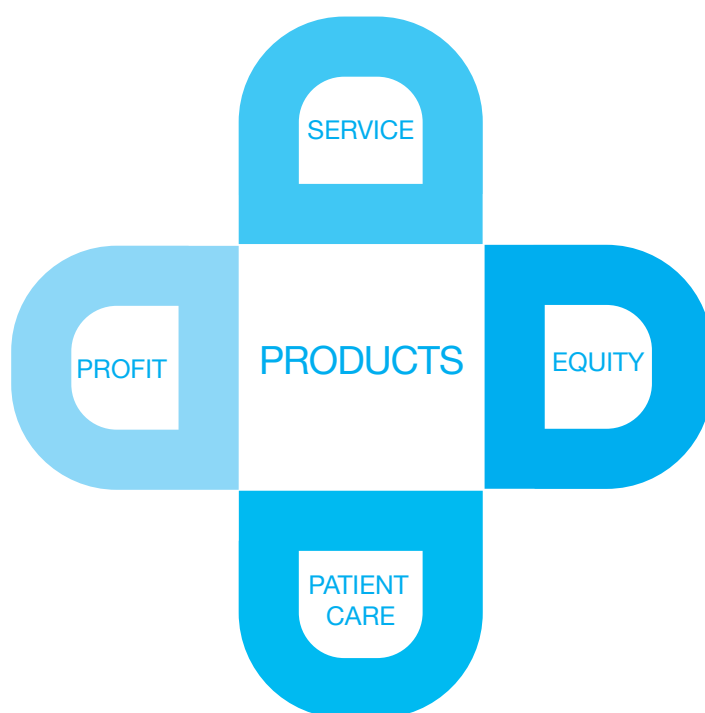
Australian pharmacies need a value proposition that provides simplified ordering with consistent pricing and timely deliveries.



## Sales & Marketing Strategy

Genepharm's product range is the core strategy around which all the other strategic elements revolve. Genepharm's product range will over the next three years grow to encompass the top generic pharmaceuticals that Australians will be dispensed.

Genepharm Australasia's sales and marketing strategy is built around mutual value creation with pharmacy. The four pillars of this strategy are:



### **Service**

Genepharm will build direct sales relationships with Australian pharmacies through the Company's sales representatives. Our field personnel will not only be involved in stock management and product ordering for pharmacists but will also provide product information, training and business support.

### **Profit**

Genepharm's access to an efficient and cost effective product pipeline will ensure that products can be supplied to the Australian market at prices that will provide sustainable financial benefits to pharmacists, patients and the PBS.

### **Patient Care**

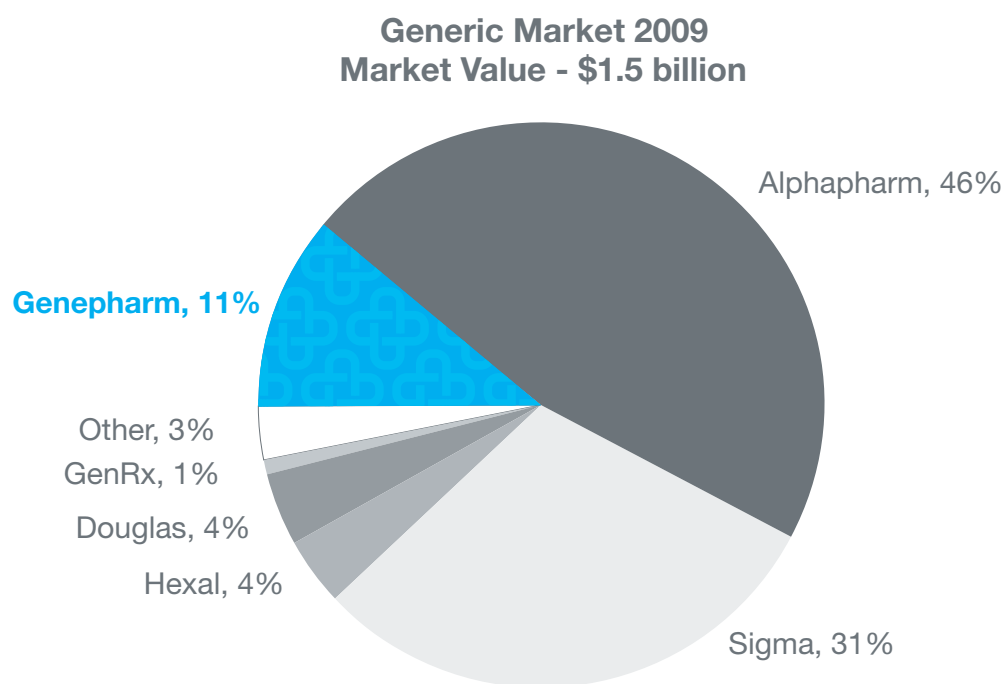
Programs that support quality use of medicines and patient confidence in the quality, safety and efficacy of generic medicines are currently being developed by Genepharm with community pharmacists. Genepharm's patient care focus will also be prevalent in patient friendly packaging and product, designed to make the use of Genepharm generics easy and safe.

### **Equity**

Genepharm's unique proposition of mutual value creation between the business and its pharmacy customers will be built on a product offer that includes not only appropriate pricing incentives but long term equity incentives to include all stakeholders in the value growth of the business.

A rising tide of demand, cost efficient supply and a differentiated market offer have all been used to prime Genepharm's product entry into the generic market early in 2006.

Genepharm's focus is to build over the next four years a Company that will be clearly positioned as one of the three leaders in generic pharmaceuticals in Australia but with an infrastructure and business model that will see Genepharm continually exceed its competitors' profitability well into the new decade.



Source: Genepharm Australasia estimates. Base case forecasts.



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# Industry Overview

## The Global Generic Drug Market

Worldwide sales of pharmaceuticals have continued to grow at a steady rate of 8% per annum over the last few years. Total global pharmaceutical company sales topped US\$500 billion in 2004 and are expected to grow to over US\$750 billion by 2010.

Globally, growth in the use of generic pharmaceuticals continues to be about twice that of originator pharmaceuticals running at around 15%. Some estimates place the global use of generics as high as 78% of all medicines being consumed. (Source: Medical News Today, 24 July 2005.)

**Within ten weeks of a drug coming off patent in the US,  
generic drug substitution will exceed 80% of pharmacy sales.**

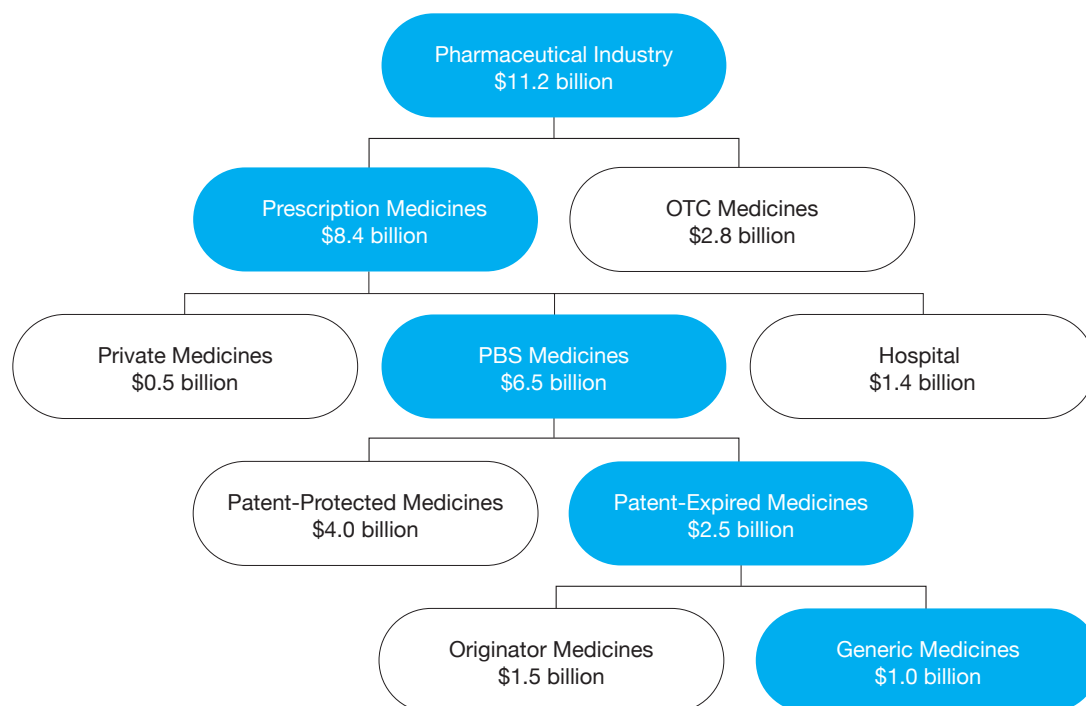
### World Retail Pharmacy Drug Sales – 12 months to June 2005

Market	Total Pharmacy Sales (US\$billions)	Growth	Generic Drugs		
			% Total Prescriptions	% Total Sales	Generic Sales (US\$billions)
USA	179	6%	60%	12%	21.5
Canada	11	9%	40%	14%	1.5
Germany	27	6%	45%	28%	7.6
UK	16	2%	52%	18%	2.9
Japan	60	3%	16%	5%	3.0
Brazil	6	24%	85%	15%	0.9
Australia	5	6%	26%	14%	0.7

Source: IMS Retail Drug Monitor, August 2005 and Genepharm Australasia Estimates



## Australian Pharmaceuticals – Market Summary 2005



Source: Genepharm Australasia estimates of Australian patient sales for the year ending June 2005

## PBS Growth

PBS	Actual <sup>^</sup>				Estimate <sup>*</sup>					
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Financial Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Dispensed Cost (\$millions)	\$4,552	\$4,993	\$5,433	\$5,928	\$6,500	\$6,700	\$7,100	\$7,500	\$8,000	\$8,600
Total Prescriptions (millions)	148	155	159	165	170	177	184	192	199	207
Concession Prescriptions (millions)	125	130	133	138	141	149	155	163	169	176

Source: <sup>^</sup> PBS Statistics, Department of Health and Ageing  
<sup>\*</sup> Genepharm Australasia estimates

## Australian Generics Growth

In Australia, compound annual growth for generics will continue until the end of the decade at around 20% while the total PBS is estimated to grow at 7%. Around one in every four prescriptions presented to pharmacists in Australia were filled with generic medicines in the 2005 Financial Year. This level of use will almost double in the next five years as most of the top 100 selling prescription medicines in Australia will come off patent and be substituted for generic branded drugs.

A significant market factor is the increasing dominance that the emerging generics will have over the total value of the market. By December 2008, 10 of the top 20 drugs will be patent expired and therefore have PBS listed generic alternatives. These 10 drugs currently represent 20% of the total dispensed cost of the PBS, a total of \$1.3 billion and account for 15% of all the PBS prescriptions. At present only 2 of these drugs are patent expired. (see table page 18)

In 2009 over 200 generic drugs will account for a dispensed value of around \$2 billion. The top 10 generics will be responsible for 40% of this value (\$800m) and the top 40 generics will make up 85% (\$1.7b).

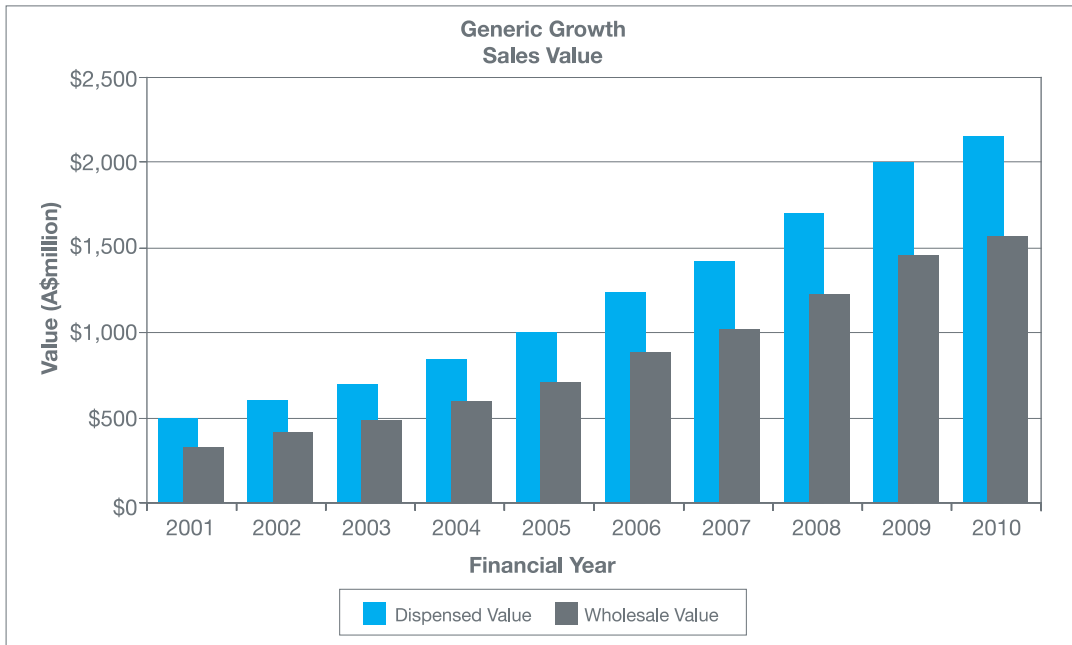
This represents a significant shift in the current structure of the generic market for manufacturers and pharmacists. The patent expiry of such high value drugs will drive increased competition at a small end of the pharmaceutical product range and also concentrate pharmacy generic activity and profitability.

Supporting the product growth are three underlying factors that will drive generic medicine substitution and compound the effect of the increase in patent expired products.

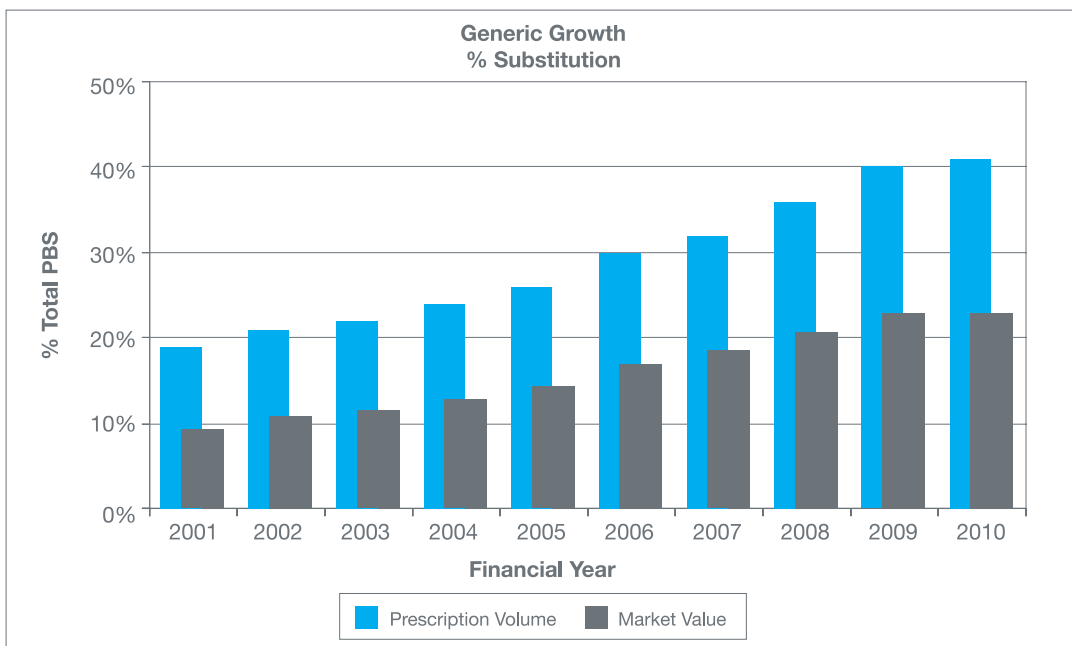
- Government cost containment strategies to manage the growth of the PBS. These programs are being developed around increased support of generic substitution.
- Increased use of medicines due to an ageing population. Concession card holders are the most sensitive to the price benefits of generic brands over the originator products.
- Increasing value in pharmacy businesses of prescription medicines. Pharmacy is finding business returns are being sustained by prescription drug sales, especially generic medicines, as opposed to highly competitive, low margin over-the-counter product sales.



Australia is still catching up to the rest of the world in its use of generics.



Consumers are becoming more comfortable in using generic medicines, recognising they are equivalent in quality, safety and efficacy with the originator brand.



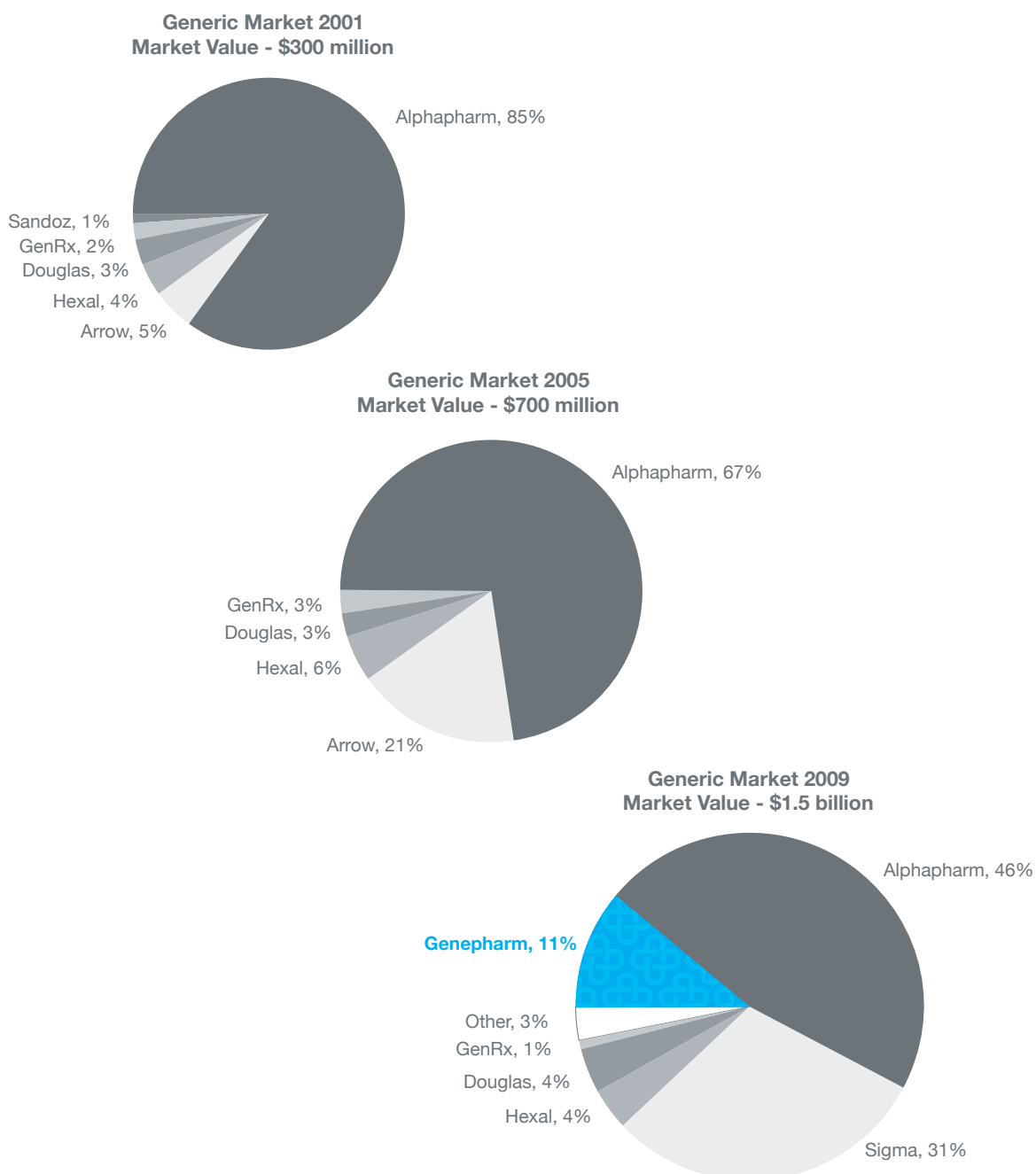


## Competition in the Generic Market

Australia continues to have a relatively small but active competitive landscape for generic pharmaceuticals with 5 major suppliers to the PBS.

While a growing market for generic sales, Australia represents a logistical issue for the world's biggest generic players. The relatively small size of the market and the high cost of entry make Australia a difficult investment opportunity for multi-national generic companies that are structured for larger high volume markets.

It is our expectation though, that a small number of additional generic product suppliers will emerge over the next five years offering competitive pricing on difficult to manufacture or niche products.



## The Pharmaceutical Benefits Scheme (PBS)

Australia's PBS subsidises around 75% of all prescriptions dispensed in Australia. The PBS subsidy is based on a "benchmark cost" which is the lowest cost alternative on the market. Once a generic pharmaceutical is available the benchmark is typically reduced and consumers may be required to pay an out-of-pocket "brand premium" for the originator product.

The PBS subsidy covers the cost for a drug between the agreed co-payment amount and the drug's "benchmark cost". Current co-payment amounts are \$28.60 for General Patients and \$4.60 for Concession Patients.

In the 12 months to 30 June 2005 PBS subsidies covered approximately 172 million prescriptions with a total dispensed cost of A\$6.5 billion, up 9% on the previous year. The total cost of Government pharmaceutical subsidies was A\$5 billion.

The PBS covers over 600 pharmaceutical substances (types), available in 1,500 forms and strengths (items) and marketed as over 2,700 different pharmaceutical products (brands).

The top 20 pharmaceutical types represent approximately 46% (A\$2.89 billion) of the total dispensed cost of PBS drugs and 31% (53 million) of the total PBS prescription volume (Source: Genepharm Australasia estimates, see table on the following page).

### The 12.5% Initiative\*

In the 1 August 2005 PBS Schedule the Government implemented a new policy to reduce the amount it pays for new generic brands of PBS medicines. This policy has been designed to deliver significant savings for the PBS and to improve the affordability of the PBS for the Australian community.

Under the new policy, when a manufacturer seeks to list the first new generic brand of a medicine already included on the PBS, it will need to offer a minimum 12.5% price reduction in the Government "benchmark price" for the medicine. The first price reductions under this policy came into effect on 1 August 2005.

For the first new generic brand of a PBS medicine to be included on the PBS, a price reduction of at least 12.5% must be offered by the manufacturer.

As the PBS is based on a reference pricing system (the prices of medicines are linked if they work in the same way or have the same health outcomes), the reduction will:

- Flow on to all brands of that medicine.
- Flow on to all forms and strengths of that medicine which are administered in the same way.
- Flow on to all other medicines in the same reference pricing group, which are administered in the same way.
- Be applied to combination medicines (when one medicine is combined with another medicine in the one formulation) on a pro-rata basis.

The 12.5% price reduction will apply once only for each medicine, including for medicines in a reference pricing group where the reduction has occurred as a flow-on from another medicine.

\*Source: Department of Health and Ageing website – PBS Initiatives



## Top 20 Pharmaceuticals by Total Dispensed Cost – 12 months to June 2005

PBS Rank	Generic Name (Brand Name)	Dispensed Cost A\$	Govt Cost A\$	Prescription Volume	Wholesale Value A\$
1	ATORVASTATIN (Lipitor)	\$ 511,370,284	\$ 433,615,425	7,548,501	\$ 428,574,843
2*	SIMVASTATIN (Zocor)	\$ 391,630,869	\$ 344,105,327	5,798,048	\$ 328,150,769
3*	OMEPRAZOLE (Losec)	\$ 192,945,696	\$159,477,813	3,979,523	\$ 156,961,007
4	SALMETEROL and FLUTICASONONE (Seretide)	\$ 187,294,491	\$ 156,550,112	2,606,569	\$ 157,633,091
5	ESOMEPRAZOLE (Nexium)	\$ 158,467,906	\$ 130,809,267	2,726,032	\$ 131,188,137
6	OLANZAPINE (Zyprexa)	\$ 149,637,200	\$145,379,572	674,187	\$ 131,845,940
7	CLOPIDOGREL (Plavix)	\$ 139,875,665	\$ 130,312,571	1,654,887	\$ 118,947,503
8*	PRAVASTATIN (Pravachol)	\$126,407,387	\$ 110,349,157	1,933,294	\$ 105,658,414
9	PANTOPRAZOLE (Somac)	\$ 114,655,087	\$ 95,167,823	2,360,257	\$ 93,290,660
10*	ALENDRONATE (Fosamax)	\$ 107,341,874	\$ 96,466,446	1,877,453	\$ 88,733,648
11*	VENLAFAXINE (Efexor)	\$ 101,446,960	\$ 78,390,562	1,788,077	\$ 83,803,069
12*	SERTRALINE (Zoloft)	\$ 96,807,660	\$ 64,565,536	2,460,030	\$ 76,809,528
13	IRBESARTAN (Karvea)	\$ 95,529,529	\$ 69,055,915	3,141,630	\$ 72,800,580
14	IRBESARTAN with HCT (Karvezide)	\$ 93,235,648	\$ 64,852,559	2,786,015	\$ 72,227,537
15	CELECOXIB (Celebrex)	\$ 90,943,870	\$ 69,731,234	2,709,145	\$ 70,487,329
16	INSULIN (Humulin)	\$ 75,470,332	\$ 72,109,282	373,988	\$ 66,354,793
17*	PERINDOPRIL (Coversyl)	\$ 69,867,512	\$ 53,185,046	2,594,307	\$ 52,000,237
18*	AMLODIPINE BESYLATE (Norvasc)	\$ 63,503,829	\$ 49,370,896	2,191,039	\$ 47,964,228
19*	RAMIPRIL (Tritace)	\$ 63,494,980	\$ 47,434,688	2,468,427	\$ 46,792,899
20*	CITALOPRAM (Cipramil)	\$ 59,704,412	\$ 39,866,410	1,556,598	\$ 47,205,598

<b>Total - Top 20</b>	\$ 2,889,631,189	\$ 2,410,795,641	53,228,007	\$ 2,377,429,809
% of Total PBS	46%	46%	31%	47%

<b>Total – Top 10 Generics (2009)</b> * Pharmaceuticals with patent expiry by Dec 2008	\$ 1,273,151,178	\$ 1,043,211,881	26,646,796	\$ 1,034,079,397
% of Total PBS	20%	20%	15%	20%

# Directors' Report

Your directors submit their report for the period ended 30 June 2005.

## Directors

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

### 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 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 Allans Music Group Pty Ltd, Defence Housing Authority and Virtual Communities Limited. He is currently Chairman of Church Resources, CCI Investment Management Limited, HLT Limited and Domaines Tatiarra Limited. He is a member of the Compliance Committee of Franklin Templeton Investments Australia Limited. He 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  
*(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  
*(Director, Chief Financial Officer and Company Secretary)*

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 has worked in Australia and abroad in a variety of roles focused on the financial management of new products and new market strategies.

**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. The son of the company's founder, Mr. Nicholas Vigopoulos, Mr. Vigopoulos has extensive experience with the European pharmaceutical industry and an intensive network of business contacts in the industry worldwide. He was the Chairman of Genepharm SA from 1999 to 2002 and has been the Chairman of Alvia SA, a Greek company specialising in the medical industry, since 1990. He also participates in several other businesses in Greece and around the globe.

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

Director since the formation of the Company in 2003. Member of the Audit Committee and the Remuneration Committee. Mr. Lianes is Chief Executive Officer of the Genepharm Group. An Australian, Mr. Lianes moved to Greece to join the Genepharm Group with responsibilities for developing the group's global business.

## Interests in the shares and options of the Company and related bodies corporate

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	600,000	-
D.Bastas and G.R.Harding *	12,480,000	-
D.Bastas	-	1,800,000
G.Harding	-	1,500,000
A.N. Vigopoulos #	28,800,000	-
K. Lianas #	6,720,000	-

# Indicates relevant interest shareholding via a director related entity.

\* D. Bastas and G.R. Harding hold 12,480,000 shares via a director related entity and as such both have a relevant interest in the 12,480,000 shares.

## Earnings Per Share

### Cents

Basic (loss) per share	(4.8)
Diluted (loss) per share	(4.8)

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 the Company during the course of the financial year were the development and market approval of generic pharmaceuticals for sale and distribution to retail pharmacies and hospitals in the Australian market.

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

The entity employed six employees at 30 June 2005 (2004: two employees)

## Review and results of operations

### Product Development and Market Approvals

Genepharm submitted thirteen new generic drug registrations with the Therapeutic Goods Administration (TGA) during the financial year. The new generic drugs include both oral and injectable formulations for sale to retail pharmacies and hospitals.

This range of products, which include five of the top 20 selling drugs on the PBS with a dispensed market value of over A\$800million, are expected to be available for sale and distribution in the next financial year once market approval has been granted by the TGA.

Genepharm's future product pipeline will continue to provide access to most of the top selling generic pharmaceuticals as they become available for market approval through patent expiries in the coming years. Genepharm is on track to achieve its target of 40-50 new generic drug submissions by mid 2007.

### Distribution

Agreements and systems have been established to distribute Genepharm's generic drugs to retail pharmacies and hospitals in Australia.

Genepharm has entered into retail pharmacy wholesale distribution agreements with the three major wholesale pharmacy distributors - API, Mayne and Sigma. These agreements will provide Genepharm with distribution to all pharmacies in Australia for its generic pharmaceuticals.

Genepharm has also secured hospital pharmacy distribution agreements with two leading Australian distributors, HSA/Clifford Hallam and Cottman Australia. HSA/Clifford Hallam is the largest supplier of hospital pharmacy products in New South Wales, Victoria, Queensland and Tasmania and Cottman Australia is a dominant hospital supplier in Western Australia, South Australia and the Northern Territory.

### Sales and Marketing

Genepharm will seek to develop and deploy a segmented marketing strategy in the next financial year as its first range of products become available for sale. The strategy will include incentive programs and key account strategies to drive sales to pharmacies and hospitals in order build sustainable sales revenues.

### Outlook

The strong market outlook for generic pharmaceuticals is continuing with compounded growth of over 20% per annum expected for the next three to five years. The market for generic pharmaceuticals is expected to grow to over \$2 billion by 2009, a figure which includes the impact of recent cost saving measures announced by the federal government. The key growth drivers are; the expirations of many of the top 100 PBS drugs between now and 2008, increasing government and public support for generic pharmaceuticals and an ageing, more drug reliant population.

## Review of Financial Condition

### Financial Results

The Company recorded a loss from ordinary activities of \$3.67 million which was better than management forecast. After adding back the depreciation and amortisation component (non-cash items) of \$2.42 million, the EBITDA result was a loss of \$1.25 million.

### Cashflow Management

Cash management remained a core focus of the business with \$2.1 million of net cashflows used in operating activities of which over \$1 million has been invested in the drug registration process with the TGA. Management remains confident that the Company has sufficient cash resources to successfully launch its range of products this coming financial year.



## Share Options

### Unissued Shares

At the date of this report, there were 5,400,000 unissued ordinary shares under option. Refer to notes 12 and 17 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 any related body corporate or in the interest issue of any other registered scheme.

## Indemnification and Insurance of Directors and Officers

The Company has made an agreement 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:

- (a) the liability does not arise out of conduct involving a lack of good faith; or
- (b) the liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement 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 Genepharma Australasia Ltd against costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or
- (b) 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 \$39,850.

## Remuneration Report (audited)

### Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, 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 caliber, 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 May 2004 when shareholders approved an aggregate remuneration of \$150,000 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 2005 is detailed in Table 1 on page 25 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 and 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
  - Short Term Incentive ('STI'); and
  - 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. Table 3 on page 25 details the variable component (%) of senior managers.

## 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 in Table 2 on page 25.

## 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, drug registrations achieved 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.

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. Table 3 on page 25 provides details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

### Company Performance

Initially Company performance will be evaluated with reference to regulations and infrastructure milestones being achieved, these outcomes are reflected in the share price which has moved from \$0.50 issue price at listing date to \$1.01 at 30 June 2005, a gain of over 100%.

## Employment Contracts

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 18 months' written notice (up to June 2006) or 12 months written notice (after 30 June 2006) or provide 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.

The CFO, 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 18 months' written notice (up to June 2006) or 12 months written notice (after 30 June 2006) or provide 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.

The Sales and Marketing manager, Mr. Jeffs, is employed under contract. The employment contract commenced on 1 October 2004. Under the terms of the contract:

- Mr. Jeffs may resign from his position and thus terminate this contract by giving one month's written notice. On resignation any options will be forfeited.
- The Company may terminate the employment agreement by providing six months' written notice (in the first year of employment) or three months written notice (after the first year of employment) or provide payment in lieu of some or all of the notice period (based on the fixed component of Mr. Jeffs' 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. Jeffs 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.



Table 1: Directors remuneration for the year ended 30 June 2005

		<u>Primary Benefits</u>	<u>Post Employment</u>	<u>Equity</u>	<u>Other</u>	<u>Total</u>
		Salary & Fees	Super-annuation	Options	Bonuses	
		\$	\$	\$	\$	\$
T.J.R O'Brien	2005	81,600	7,290	-	-	88,890
	2004	18,300	1,620	-	-	19,920
D. Bastas	2005	240,000	20,700	321,017	41,400	623,117
	2004	76,667	6,900	-	-	83,567
G.R. Harding	2005	150,000	13,500	267,514	27,000	458,014
	2004	50,000	4,500	-	-	54,500
A.N. Vigopoulos	2005	-	-	-	-	-
	2004	-	-	-	-	-
K. Lianneas	2005	28,000	2,520	-	-	30,520
	2004	7,000	630	-	-	7,630
<b>Totals</b>	<b>2005</b>	<b>499,600</b>	<b>44,010</b>	<b>324,722</b>	<b>68,400</b>	<b>929,732</b>
	<b>2004</b>	<b>151,967</b>	<b>13,650</b>	<b>-</b>	<b>-</b>	<b>165,617</b>

D. Bastas and G.R. Harding are executive officers of the Company in addition to being directors.

Table 2: Remuneration of the 1 named executive who received the highest remuneration for the year ended 30 June 2005

		<u>Primary Benefits</u>	<u>Post Employment</u>	<u>Equity</u>	<u>Other</u>	<u>Total</u>
		Salary & Fees	Super-annuation	Options	Bonuses	
		\$	\$	\$	\$	\$
K.Jeffs	2005	137,615	12,385	205,536	-	355,536

Table 3: Options granted as part of remuneration for the year ended 30 June 2005 (in accordance with the LTI plan)

	Grant date	Grant Number	Vest	Value per option at grant date*	Exercised Number	Value per option at exercise date	Value at date option lapsed	% of remuneration
D. Bastas	18-Jan-05	1,800,000	Various	\$0.29	N/A	N/A	N/A	37.0%
K. Harding	18-Jan-05	1,500,000	Various	\$0.29	N/A	N/A	N/A	43.7%
K. Jeffs	18-Jan-05	1,050,000	Various	\$0.58	N/A	N/A	N/A	57.8%
		<u>4,350,000</u>						

\* From 1 July 2004, options granted as part of the SMSOP have been valued using the Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, current market price of the underlying share and the expected life of the option.

### Fair value of options

The fair value of each option is estimated on the date of the grant using the Binomial option-pricing model with the following weighted average assumptions used for grants made after 1 July 2004:

Dividend yield	2.5c
Expected volatility	30%
Risk-free interest rate	5.21% – 5.39%
Expected life of options	1.5 Years

The expected life of the options is based on statistical information and is not necessarily indicative of exercise patterns that may occur. The expected volatility has been calculated with reference to the limited historic volatility trends (Geneparm Australasia Limited listed in June 2004) and comparative companies.

The resulting weighted average fair value values per option for those options vesting after 1 July 2004 are:

Number of Options	Vesting Date	Expiry Date	\$
1,100,000	1 Mar 2005	1 Mar 2008	0.37
1,100,000	1 Mar 2006	1 Mar 2009	0.30
1,100,000	1 Mar 2007	1 Mar 2010	0.21
350,000	1 Dec 2005	1 Dec 2008	0.74
350,000	1 Dec 2006	1 Dec 2009	0.61
350,000	1 Dec 2007	1 Dec 2010	0.41

Currently these values are not recognised in the financial statements. However, should these grants be expensed, they would be amortised over the vesting periods resulting in an increase in employee benefits expense of \$794,067 for the 2005 financial year (2004: nil). Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e., options that do not vest).

### 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	Remuneration Committee Meetings
<b>Number of meetings held:</b>	<b>6</b>	<b>2</b>	<b>1</b>
<b>Number of meetings attended:</b>			
T.J.R O'Brien	6	2	1
D. Bastas	6	-	-
G.R. Harding	6	-	-
A.N. Vigopoulos	4	-	-
K. Lianneas	6	2	1

### 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)	T.J.R O'Brien (c)
K. Lianneas	K. Lianneas

### Notes

(c) Designates the chairman of the committee.

## Auditor Independence and Non-Audit Services

The directors received the attached audit independence declaration from the auditor of Geneparm Australasia Limited, refer to page 28.

## Non-Audit Services

There were no non-audit services provided by the entity's auditor, Ernst and Young.

Signed in accordance with a resolution of the directors.

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

D. Bastas  
Director  
Melbourne 27 September, 2005

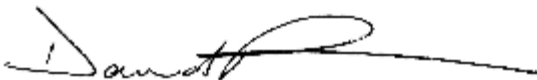


## **Auditor's Independence Declaration to the Directors of Genepharm Australasia Limited**

In relation to our review of the financial report of Genepharm Australasia Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

*Ernst & Young*

Ernst & Young



David Petersen  
Partner

27<sup>th</sup> September 2005

# Corporate Governance Statement

The Board of Directors of Genepharm Australasia Limited is responsible for the corporate governance of the entity. The Board guides and monitors the business and affairs of Genepharm Australasia Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The format of the Corporate Governance Statement has changed in comparison to the previous year due to the introduction of the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Genepharm Australasia Limited's Corporate Governance Statement is now 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 2005 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 19. 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
K. Lianas	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	Director and Chief Executive Officer
G.R. Harding	Director, Chief Financial Officer and Company Secretary
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
K. Lianas	Since 10 December 2003

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 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)  
K. Lianas

For details on the number of meetings of the audit committee held during the period and the attendees at those meetings, refer to page 26 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:  
K. Lianas (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 26 of the Directors' Report.



# Statement of Financial Performance

YEAR ENDED 30 JUNE 2005

	Notes	Genepharm Australasia Limited 2005 \$	Genepharm Australasia Limited 2004 \$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	<b>2</b>	566,883	2,734
Consulting fees		(229,999)	(201,036)
Depreciation and amortisation	<b>3(a)</b>	(2,420,589)	(132,628)
Employment costs		(925,179)	(175,707)
Market value of shares issued to non-executive director and industry advisors for professional services		-	(325,000)
Other expenses from ordinary activities	<b>3(b)</b>	(663,809)	(153,790)
<b>LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		<u>(3,672,693)</u>	<u>(985,427)</u>
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>	<b>5</b>	<u>-</u>	<u>-</u>
<b>NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE ATTRIBUTABLE TO MEMBERS OF GENEPHARM AUSTRALASIA LIMITED</b>	<b>13</b>	<b>(3,672,693)</b>	<b>(985,427)</b>
Share issue costs	<b>12(b)</b>	<u>(13,811)</u>	<u>(1,490,763)</u>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>		<u><b>(3,686,504)</b></u>	<u><b>(2,476,190)</b></u>
Basic (loss) per share (cents per share)	<b>18</b>	(4.8)	(1.3)
Diluted (loss) per share (cents per share)	<b>18</b>	(4.8)	(1.3)

# Statement of Financial Position

AS AT 30 JUNE 2005

	Notes	Genepharm Australasia Limited 2005 \$	Genepharm Australasia Limited 2004 \$
<b>CURRENT ASSETS</b>			
Cash assets	<b>15(b)</b>	8,472,048	10,716,387
Receivables	<b>6</b>	83,558	50,161
Other	<b>7</b>	65,333	65,516
<b>TOTAL CURRENT ASSETS</b>		<u>8,620,939</u>	<u>10,832,064</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<b>8</b>	119,008	89,133
Intangibles	<b>9</b>	22,513,600	23,908,856
<b>TOTAL NON-CURRENT ASSETS</b>		<u>22,632,608</u>	<u>23,997,989</u>
<b>TOTAL ASSETS</b>		<u>31,253,547</u>	<u>34,830,053</u>
<b>CURRENT LIABILITIES</b>			
Payables	<b>10</b>	163,532	141,499
Provisions	<b>11</b>	97,709	9,744
<b>TOTAL CURRENT LIABILITIES</b>		<u>261,241</u>	<u>151,243</u>
<b>TOTAL LIABILITIES</b>		<u>261,241</u>	<u>151,243</u>
<b>NET ASSETS</b>		<u><b>30,992,306</b></u>	<u><b>34,678,810</b></u>
<b>EQUITY</b>			
Contributed equity	<b>12</b>	35,650,426	35,664,237
Retained earnings	<b>13</b>	(4,658,120)	(985,427)
<b>TOTAL EQUITY</b>	<b>14</b>	<u><b>30,992,306</b></u>	<u><b>34,678,810</b></u>

# Statement of Cash Flows

YEAR ENDED 30 JUNE 2005

	Notes	Genepharma Australasia Limited 2005 \$	Genepharma Australasia Limited 2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(1,684,687)	(492,177)
Interest received		566,056	2,734
NET CASH FLOWS USED IN OPERATING ACTIVITIES	<b>15(a)</b>	<u>(1,118,631)</u>	<u>(489,443)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant and equipment		(46,407)	(90,061)
Payments on behalf of related parties		(58,090)	(2,790)
Payments for intangible assets		(1,007,400)	(40,556)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(1,111,897)</u>	<u>(133,407)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of convertible notes		-	590,000
Transaction costs from issue of convertible notes		-	(72,971)
Proceeds from issue of shares		-	12,000,000
Transaction costs from issue of shares		(13,811)	(1,177,792)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		<u>(13,811)</u>	<u>11,339,237</u>
NET INCREASE/(DECREASE) IN CASH HELD		(2,244,339)	10,716,387
Add opening cash brought forward		10,716,387	-
<b>CLOSING CASH CARRIED FORWARD</b>	<b>15(b)</b>	<u><b>8,472,048</b></u>	<u><b>10,716,387</b></u>

# Notes to the Financial Statements

30 JUNE 2005

## 1. Summary of significant accounting policies

### (a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The accounting policies adopted are consistent with those of prior years.

The financial report has been prepared in accordance with the historic cost convention.

### (b) Foreign currencies

#### *Translation of foreign currency transactions*

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

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

### (c) Cash and cash equivalents

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

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

### (d) Receivables

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

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

Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

### (e) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amounts, the undiscounted cashflow method has been used.

### (f) Property, plant and equipment

#### *Cost and valuation*

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

#### *Depreciation*

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

Major depreciation periods are:	<b>2005</b>	<b>2004</b>
Leasehold improvements	Term of lease	Term of Lease
Plant and equipment:	3-13 years	3-13 years

### (g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

#### *Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

### (h) Intangibles

#### *Distribution Agreement and Distribution Rights*

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

#### *Dossier Costs*

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

**(i) Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

**(j) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

**(k) Provisions**

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

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

**(l) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(m) Revenue recognition**

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

*Sale of goods*

Control of the goods has passed to the buyer.

*Rendering of services*

Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

*Interest*

Control of the right to receive the interest payment.

**(n) Taxes***Income taxes*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

*Goods and Services Tax (GST)*

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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

**(o) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries and annual leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits are recognised against profits on a net basis in their respective categories.

The value of the equity-based compensation scheme described in note 17 is not being recognised as an employee benefits expense.

**(p) Earnings per share**

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.



<b>Genepharma Australasia Limited 2005 \$</b>	<b>Genepharma Australasia Limited 2004 \$</b>
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## 5. Taxation

The prima facie tax, using tax rates applicable, on losses differs from the income tax provided in the financial statements as follows:

Prima facie tax benefit on loss from ordinary activities	(1,101,808)	(295,628)
Tax effect of permanent differences		
Amortisation of distribution agreement	721,217	39,452
Shares issued at no cost	-	97,500
Deductible equity raising costs	(75,934)	(75,105)
Sundry items	4,350	3,285
Tax loss benefit not recognised	452,175	230,496
Income tax expense attributable to ordinary activities	<u>-</u>	<u>-</u>
<b>Income tax losses</b>		
Future income tax benefit arising from tax losses not recognised at reporting date as realisation of the benefit is not regarded as virtually certain	<u>(982,186)</u>	<u>(230,496)</u>

This future income tax benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) no changes in tax legislation adversely affect the entity in realising the benefit

## 6. Receivables

Goods and services tax	22,678	47,371
Other - related party	60,880	2,790
	<u>83,558</u>	<u>50,161</u>

### *Terms and conditions*

Other receivables are non-interest bearing and have repayment terms less than 12 months.

## 7. Other Current Assets

Deposits	24,406	24,406
Prepayments	38,657	39,949
Withholding tax	2,270	1,161
	<u>65,333</u>	<u>65,516</u>

<b>Genepharm Australasia Limited 2005 \$</b>	<b>Genepharm Australasia Limited 2004 \$</b>
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## 8. Property, Plant And Equipment

### Plant and equipment

At cost	82,036	40,301
Accumulated depreciation	(12,166)	(824)
	69,870	39,477

### Leasehold improvements

At cost	54,433	49,760
Accumulated amortisation	(5,295)	(104)
	49,138	49,656

Total property, plant and equipment - net book value

119,008	89,133
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### Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial period.

### Plant and equipment

Carrying amount at beginning of period	39,477	-
Additions	41,735	40,301
Depreciation expense	(11,342)	(824)
Carrying amount at end of period	69,870	39,477

### Leasehold improvements

Carrying amount at beginning of period	49,656	-
Additions	4,673	49,760
Amortisation expense	(5,191)	(104)
Carrying amount at end of period	49,138	49,656

## 9. Intangibles

Distribution Agreement	24,040,556	24,040,556
Less Accumulated Amortisation	(2,535,756)	(131,700)
	21,504,800	23,908,856
Dossier Costs	1,008,800	-
	22,513,600	23,908,856

## 10. Payables

### Current

Trade creditors and accruals	130,377	115,682
Other creditors	33,155	25,817
	163,532	141,499

(a) Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms
- (ii) Other creditors are non-interest bearing and have a maximum term of 90 days

**Genepharma  
Australasia  
Limited  
2005  
\$**

**Genepharma  
Australasia  
Limited  
2004  
\$**

## 11. Provisions

### Current

Employee entitlements	97,709	9,744
	97,709	9,744
	97,709	9,744

## 12. Contributed Equity

### (a) Share capital

Ordinary shares fully paid	35,650,426	35,664,237
	35,650,426	35,664,237
	35,650,426	35,664,237

### (b) Movements in shares on issue

	2005		2004	
	Number of Shares		Number of Shares	
Beginning of the financial period	76,080,000	35,664,237	-	-
Issued during the period				
– to founder group in consideration for distribution rights	-	-	100	24,000,000
– convertible notes issued	-	-	-	590,000
– in relation to share split	-	-	47,999,900	-
– on conversion of convertible notes	-	-	2,950,000	-
less transaction costs	-	-	-	(72,971)
– to non-executive chairman for no cash consideration	-	-	500,000	250,000
– to industry advisors for no cash consideration	-	-	150,000	75,000
– to Odyssey Equity Finance Pty Ltd for equity raising services	-	-	480,000	240,000
– Public equity raising via prospectus	-	-	24,000,000	12,000,000
less transaction costs	-	(13,811)	-	(1,417,792)
Balance at end of period	76,080,000	35,650,426	76,080,000	35,664,237
	76,080,000	35,650,426	76,080,000	35,664,237

### (c) Share options

Options over ordinary shares:

#### *Senior Managers Share Option Scheme*

During the financial year 5,000,000 options were issued over ordinary shares, exercisable at various dates and with issue terms of between one and five years. The options had a weighted average exercise price of \$1.46. At the end of the year there were 5,000,000 unissued ordinary shares in respect of which options were outstanding under this scheme.

#### *Advisory Board Share Option Scheme*

During the financial year 400,000 options were issued over ordinary shares, exercisable at various dates and with issue terms of between one and five years. The options had a weighted average exercise price of \$1.75, with expiry dates between 1 December 2008 and 1 December 2010. At the end of the year there were 400,000 unissued ordinary shares in respect of which options were outstanding under this scheme.

### (d) Terms and conditions of contributed equity

#### *Ordinary Shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Genepharm Australasia Limited 2005 \$	Genepharm Australasia Limited 2004 \$
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### 13. Retained Losses

Accumulated losses at the beginning of the period	(985,427)	-
Net loss attributable to members of the parent entity	(3,672,693)	(985,427)
Accumulated losses at the end of the period	<u>(4,658,120)</u>	<u>(985,427)</u>

### 14. Total Equity Reconciliation

Total equity at the beginning of the period	34,678,810	-
Total changes in parent entity interest in equity recognised in statements of financial performance	(3,686,504)	(2,476,190)
Transactions with owners as owners:		
– Contributions of equity	-	37,155,000
Total equity at the end of the period	<u>30,992,306</u>	<u>34,678,810</u>

### 15. Statements Of Cashflows

#### (a) Reconciliation of the net loss after tax to the net cashflows from operations

Net loss	(3,672,693)	(985,427)
Depreciation and amortisation of non current-assets	16,533	928
Amortisation of distribution rights/agreement	2,404,056	131,700
Shares issued at no cost	-	325,000
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in prepayments	(109)	(37,558)
(Increase)/decrease in other assets	23,583	(75,328)
(Decrease)/Increase in current trade payables	(24,548)	84,436
(Decrease)/Increase in other creditors/accrued expenses	134,547	66,806
	<u>(1,118,631)</u>	<u>(489,443)</u>

#### (b) Reconciliation of cash

Cash balance comprises:		
– cash assets	8,472,048	10,716,387
Closing cash balance	<u>8,472,048</u>	<u>10,716,387</u>

### 16. Lease Expenditure Commitments

#### Operating Leases (non-cancellable):

Minimum lease payments		
– not later than one year	92,174	97,869
– later than one year and not later than two years	-	92,174
	<u>92,174</u>	<u>190,043</u>

The non-cancellable operating lease represents the rental premises and has a lease term 2 years and an average implicit interest rate of 3%.

#### Operating Leases (cancellable):

Minimum lease payments		
– not later than one year	30,318	-
– later than one year and not later than two years	46,068	-
– later than two years and not later than five years	47,129	-
	<u>123,515</u>	<u>-</u>

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

## 17. Employee Benefits

The aggregate employee benefit liability is comprised of:

Accrued wages, salaries and oncosts	33,155	25,817
Provisions (current)	97,709	9,744
	<u>130,864</u>	<u>35,561</u>

### Senior Manager Share Option Plan (SMSOP)

A senior manager 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 executive directors, executives and certain members of staff. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Genepharm 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. There are currently two directors, one executive and two staff eligible under this scheme.

Information with respect to the number of options granted under the SMSOP is as follows:

	Notes	2005		2004	
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year		-	-	-	-
- granted	12(c)	5,000,000	1.46	-	-
- forfeited		-	-	-	-
- exercised		-	-	-	-
Balance at end of year		<u>5,000,000</u>	<u>1.46</u>	<u>-</u>	<u>-</u>
Exercisable at end of year		<u>1,100,000</u>	<u>1.20</u>	<u>-</u>	<u>-</u>

(a) Options granted during the reporting period

The following table summarises information about options granted by Genepharm Australasia Limited to employees during the year:

Grant date	18 January 2005
Vesting Dates	1 March 2005 - 1 December 2007
Expiry Dates	1 March 2008 - 1 December 2010
Weighted average exercise price	\$1.46

## 18. Earnings Per Share

The following reflects the income and share data used in the calculations of basic loss per share and diluted loss per share:

Net loss	<u>(3,672,693)</u>	<u>(985,427)</u>
Earnings used in calculating basic and diluted (loss) per share	<u>(3,672,693)</u>	<u>(985,427)</u>
	<b>Number of Shares 2005</b>	<b>Number of Shares 2004</b>
Weighted average number of ordinary shares used in calculating basic loss per share:	76,080,000	76,080,000
<b>Effect of dilutive securities:</b>		
Share options	1,100,000	-
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share:	<u>77,180,000</u>	<u>76,080,000</u>

## 19. Directors and Executives Disclosures

### (a) Details of Specified Directors and Executives

#### (i) Specified Directors

T.J.R O'Brien	Chairman (non-executive)
D. Bastas	Director and Chief Executive Officer
G.R. Harding	Director and Chief Financial Officer
A.N. Vigopoulos	Director (non-executive)
K. Lianas	Director (non-executive)

#### (ii) Specified Executives

K. Jeffs	Sales and Marketing Manager (since 1 October 2004)
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### (b) Remuneration options: Granted and vested during the year

During the year options were granted as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at various exercise prices, vesting and expiration dates.

	Vested Number	Granted Number	Grant Date	Value per option at grant date \$	Exercise Price per Share \$	First Exercise Date	Last Exercise Date
<b>Specified Directors</b>							
D. Bastas	600,000	1,800,000	18 Jan 05	\$0.29	\$1.20 - \$2.00	1 Mar 05	28 Feb 10
G.R. Harding	500,000	1,500,000	18 Jan 05	\$0.29	\$1.20 - \$2.00	1 Mar 05	28 Feb 10
<b>Specified Executives</b>							
K. Jeffs	-	1,050,000	18 Jan 05	\$0.58	\$0.75 - \$1.50	1 Dec 05	1 Dec 10

### (c) Option holdings of specified directors and specified executives

	Balance at 1 July 2004	Granted as Remuneration	Options Exercised	Balance at 30 June 2005	Vested at 30 June 2005		
					Total	Not Exercisable	Exercisable
<b>Specified Directors</b>							
D. Bastas	-	1,800,000	-	1,800,000	600,000	-	600,000
G.R. Harding	-	1,500,000	-	1,500,000	500,000	-	500,000
<b>Specified Executives</b>							
K. Jeffs	-	1,050,000	-	1,050,000	-	-	-

#### (d) Shareholdings of Specified Directors and Specified Executives

##### *Equity holdings and transactions*

The movement during the reporting period in the number of ordinary shares of Genepharm Australasia Limited held, directly, indirectly or beneficially, by each specified director and executive, including their personally-related entities is as follows:

	<b>Balance 1 July 2004</b>	<b>On Exercise of Options</b>	<b>Net Change Other</b>	<b>Balance 30 June 2005</b>
<b>Specified Directors</b>				
T.J.R O'Brien	600,000	-	-	600,000
D. Bastas and G.R. Harding*	12,480,000	-	-	12,480,000
A.N. Vigopoulos #	28,800,000	-	-	28,800,000
K. Lianas #	6,720,000	-	-	6,720,000
<b>Specified Executives</b>				
K. Jeffs	60,000	-	-	60,000

# Indicates relevant interest shareholding via a director related entity.

\* D. Bastas and G.R. Harding hold 12,480,000 shares via a director related entity and as such both have a relevant interest in the 12,480,000 shares.

## 20. Impact of adopting AASB equivalents to IASB standards

Genepharm Australasia Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. In 2004, the Company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Genepharm Australasia's transition date to AIFRS. This will form the basis of accounting AIFRS in the future, and is required when Genepharm Australasia prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies that we have identified to date that are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the engaged expert consultants; (b) potential amendments to AIFRS and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

- (i) Under AASB2 Share Based Payments, the Company would recognise the fair value of options granted to employees and advisors as remuneration as an expense on a pro-rata basis in the income statement. Share-based payments are not recognised under AGAAP. This would result in a decrease in profit from AGAAP to AIFRS of \$794,067.
- (ii) Under AASB112 Income Taxes, the Company must adopt a balance sheet liability method which focuses on the tax effects of transactions that affect either the Statement of Financial Position or a tax-based balance sheet. The Company is currently considering whether this will require the recognition of a deferred tax liability and is unable to reliably quantify the potential impact at this time.

## 21. Related Party Disclosures

During the year Genepharm Australasia Limited paid Genepharm Asia Pacific Enterprises (GAPE), a director related entity of A.N. Vigopoulos, the sum of EUR108,000 in part-payment of the bioequivalence studies for six submitted dossier registrations. The distribution agreement provides for the reimbursement for bioequivalence studies of up to a maximum of EUR60,000 per dossier submitted to the TGA for registration. Payment is made in three installments over the registration and PBS listing process. Payment is made for each installment 30 days after receiving the appropriate invoice confirming GAPE's total investment in the bioequivalence studies and Genepharm Australasia Ltd's contribution to that cost.

At balance date an amount of \$60,880 is receivable from GAPE in relation to recoverable costs.

## 22. Financial Instruments

### Interest rate risk

The entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at the reporting date are as follows:

<b>2005 Financial Instruments</b>	<b>Floating interest rate</b>	<b>Fixed interest rate maturing in 1 year or less</b>	<b>Non-interest bearing</b>	<b>Total carrying amount as per the statement of financial position</b>	<b>Weighted average effective interest rate</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<i>(i) Financial Assets</i>					
Cash	471,327	8,000,000	721	8,472,048	5.46
Other receivables	-	-	83,558	83,558	N/A
Total financial assets	471,327	8,000,000	84,279	8,555,606	
<i>(ii) Financial Liabilities</i>					
Trade creditors	-	-	130,377	130,377	N/A
Other creditors	-	-	33,155	33,155	N/A
Total financial liabilities	-	-	163,532	163,532	
<b>2004</b>					
<b>Financial Instruments</b>	<b>Floating interest rate</b>	<b>Fixed interest rate maturing in 1 year or less</b>	<b>Non-interest bearing</b>	<b>Total carrying amount as per the statement of financial position</b>	<b>Weighted average effective interest rate</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<i>(i) Financial Assets</i>					
Cash	716,387	10,000,000	-	10,716,387	5.16
Other receivables	-	-	50,160	50,160	N/A
Total financial assets	716,387	10,000,000	50,160	10,766,547	
<i>(ii) Financial Liabilities</i>					
Trade creditors	-	-	115,682	115,682	N/A
Other creditors	-	-	25,817	25,817	N/A
Total financial liabilities	-	-	141,499	141,499	

N/A – not applicable for non-interest bearing financial instruments

**(a) Credit risk exposures**

The entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

**(b) Net fair values of financial assets and liabilities**

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Cash: The carrying amount approximates fair value because of its short-term to maturity.

Other receivables, trade creditors and other creditors: The carrying amount approximates fair value.

## 23. Segment Information

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

## 24. Contingent Liabilities

There were no contingent liabilities as at 30 June 2005.

## 25. Subsequent Events

No significant events occurred between 30 June 2005 and the date of this report.

# Directors' Declaration

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

- (1) In the opinion of the directors:
  - (a) the financial report and the additional disclosures included in the directors' report, designated as audited, of the Company are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the period 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 period ending 30 June 2005.

On behalf of the Board



D. Bastas  
Director  
Melbourne, 27 September 2005

## Independent audit report to members of Genepharm Australasia Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Genepharm Australasia Limited (the company), for the year ended 30 June 2005.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard 1046 *Director and Executive Disclosures by Disclosing Entities*, under the heading "remuneration report" in pages 14 to 19 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

#### *Audit approach*

We conducted an independent audit of the financial report and the additional disclosures in order to express an opinion on them to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report and the additional disclosures present fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the additional disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the additional disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.


### **Independence**

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

### **Audit opinion**

In our opinion:

1. the financial report of Genepharm Australasia Limited is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of Genepharm Australasia Limited at 30 June 2005 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
  - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained in pages 14 to 19 of the directors' report comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.



Ernst & Young



David Petersen  
Partner  
Melbourne  
27<sup>th</sup> September 2005

## 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 26 September 2005.

### (a) Distribution of equity securities

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

	Ordinary shares	
	Number of holders	Number of shares
1 - 1,000	96	78,611
1,001 - 5,000	442	1,568,665
5,001 - 10,000	346	3,006,250
10,001 - 100,000	403	11,542,084
100,000 and over	39	59,884,390
	<u>1,326</u>	<u>76,080,000</u>

### (b) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

		Listed Ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Genepharm Australasia Associates Pty Ltd	12,480,000	16.4
2	Genepharm Asia Pacific Enterprises Limited	7,200,000	9.5
3	Pelaro Trading Limited	7,200,000	9.5
4	Relio Holdings Limited	7,200,000	9.5
5	Tofino Enterprises Limited	7,200,000	9.5
6	Mandriola Investments Limited	6,720,000	8.8
7	Westpac Custodian Nominees Limited	2,006,594	2.6
8	Berne No 132 Nominees Pty Ltd	1,400,250	1.8
9	Mr Peter Hercules	1,120,000	1.5
10	Generic Blu Pty Ltd	750,000	1.0
11	National Nominees Limited	600,000	0.8
12	Mr Thomas James Richard O'Brien	500,000	0.7
13	Odyssey Equity Finance Pty Ltd	480,000	0.6
14	Powder Girl Pty Ltd	400,000	0.5
15	Mr Glenn Thomas Connor	355,000	0.5
16	J K Demaria Pty Ltd	319,325	0.4
17	Dr Norman Reuben Sonenberg	280,000	0.4
18	Annamaki Pty Ltd	257,900	0.3
19	Government Superannuation Office	256,870	0.3
20	Mr Martinus Roemer Mrs Wilhelmina Roemer	236,524	0.3
		<u>56,962,463</u>	<u>74.9</u>

### (c) Substantial shareholders

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

	Number of shares
Genepharm Australasia Associates Pty Ltd	12,480,000

### (d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.



