



**GENEPHARM AUSTRALASIA LIMITED
AND ITS CONTROLLED ENTITIES**

ABN 52 107 340 367

HALF YEAR FINANCIAL REPORT

For the period ended 31 December 2006

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Corporate Information

ABN 52 107 340 367

This half-year report covers the consolidated entity comprising Genepharm Australasia Limited and its subsidiaries (the Group). The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on page 3. The directors' report is unaudited and does not form part of the financial report.

Directors

Thomas J.R. O'Brien (Chairman)
Dennis Bastas (Chief Executive Officer)
George Rogers (Kip) Harding (Chief Financial Officer)
Achilles N. Vigopoulos
Warren J. Jenkins

Company Secretary

Jo-Anne Dal Santo

Registered office

Level 1, 263 City Road
Southbank VIC 3006

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

Directors' Report

Your directors submit their report for the half-year ended 31 December 2006.

DIRECTORS

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

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

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

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

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

Warren J. Jenkins, B.Sc. - appointed 7 February 2007
(Independent Non-Executive Director)

COMPANY SECRETARY

Jo-Anne Dal Santo, ACIS

REVIEW AND RESULTS OF OPERATIONS

The Board and Management of the Company are pleased with the performance of the business since the significant acquisition of Douglas Pharmaceuticals Australia completed 13 July 2006. The integration of the sales operations has been completed resulting in strong growth for the second quarter and providing a platform for continued growth for the full financial year.

Sales Performance

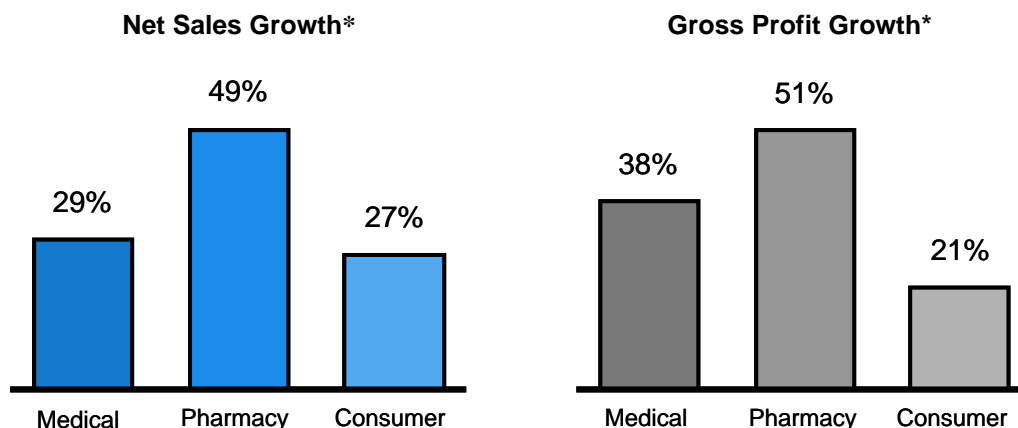
The Company achieved strong growth in pharmacy sales in the half-year to 31 December 2006 over the previous corresponding period for the aggregated Genepharm Australasia and Douglas Pharmaceuticals Australia businesses.

Pro forma sales for the full half year period were \$26.977 million with a gross profit of \$11.153 million. Pro forma EBITDA for the period was \$1.883 million, including non-cash pharmacy share options expense, with a break-even NPAT result.

Please note that "Pro forma" denotes results for the complete half-year period from 1 July to 31 December 2006 for the combined Genepharm Australasia and Douglas Pharmaceuticals Australia businesses. The actual accounting result for the half-year report includes results for the Douglas Pharmaceuticals Australia business for the period from 13 July to 31 December 2006. For more detail on the combined business result refer to Note 15.

Pharmacy sales for generic pharmaceuticals were 49% higher and gross profit increased 50% in the half-year over the previous corresponding period for the aggregated Genepharm Australasia and Douglas Pharmaceuticals Australia businesses. The Company also achieved strong growth in the medical pharmaceuticals business division, which promotes branded medicines to medical personnel, and the consumer health business division.

Directors' Report (continued)



* Percentage increase of pro forma results for the half-year to 31 December 2006 over the previous corresponding period for the aggregated Genepharm Australasia and Douglas Pharmaceuticals Australia businesses

Sales growth is expected to continue with the introduction of new products and innovative marketing and promotional programs attracting new customers. The Genepharm loyalty program continues to grow with over 1,300 pharmacy members.

Generic Market Update

Genepharm's pharmacy sales growth has occurred during a period of increased price competition. Average discounts and rebates rose by an average 10% during the period. The period also saw the entry of two new generic competitors in the Australian market. This included the first Indian generic subsidiary selling products directly to pharmacists.

Despite the more competitive market, Genepharm increased its market share by 30% over the period from July to December 2006 now holding a significant 7-8% market share of generic ethical sales in Australia. The period also saw Genepharm's marketshare of leading generic drug, Simvastatin, rise to over 10% in November 2006. Source: IMS data, Jul-Dec 2006.

The generic pharmaceutical sector is expected to continue to grow by more than 20% CAGR, to reach \$2 billion in dispensed value by 2010.

Genepharm continues to have confidence in its ability to increase market share despite the increased competitive landscape.

Operations Overview

Genepharm's pharmacy sales team has been fully integrated with the addition of experienced new state managers to recruit more pharmacy customers.

Expansion of the Company's sales resources in the medical division through the acquisition of the EpiPharm dermatology products and a growth in the medical field force are just beginning to deliver results. Detailing innovator drugs to doctors and specialists will provide the business with another growth platform.

Growth in the consumer healthcare division will be led with consumer marketing in pharmacies and the mass media. Genepharm's consumer portfolio will continue to grow organically through new product licensing and acquisitions. The Company has increased spending in marketing campaigns that will build brand awareness and promote the products in new distribution channels such as supermarkets.

Directors' Report (continued)

New Products

Genepharma launched several new products during the half-year period including three leading prescription pharmaceuticals: Pravastatin, Paroxetine and Zolpidem. These products have a combined dispensed value of over \$175 million per annum in Australia.

A number of new products are expected to be launched in the six months to June 2007.

Changes to the Pharmaceutical Benefits Scheme (PBS)

During the period the Commonwealth Government announced new PBS cost containment measures. A key element is a 25% cut in the subsidised cost of all major generic pharmaceuticals taking effect from 1 August 2008.

Genepharma does not expect a major impact on profitability as a result of the PBS changes. Most of the cost savings are expected from reduced pricing discounts offered to pharmacists. The PBS changes are expected to result in less price competition among suppliers while pharmacists will require generic suppliers to deliver a broader product and service offering.

Genepharma has invested heavily in the months since the PBS announcement to broaden its offer and appeal to Australian pharmacists in light of the pending changes.

Cashflows and Full-Year Targets

The Company reported a positive net operating cashflow and a cash position of \$11.462 million for the half-year period and expects to continue operating with a net positive cashflow subject to increased stock purchasing requirements.

The pro forma result for the half-year to 31 December 2006 is in line with Company expectations of pro forma net sales of \$60 million and gross profit of \$24 million for the full year to 30 June 2007.

Genepharma Australasia Limited will continue to pursue organic and acquisition growth opportunities in the medium term. Organic growth will be driven through an increased sales and marketing presence and new product developments, whilst emerging consolidation opportunities in the Australian healthcare market will provide a number of acquisition opportunities for the business in 2007.

Auditor's Independence Declaration

We have obtained the auditor's independence declaration from our auditors, Ernst & Young. Please refer to page 6 for the auditor's independence declaration.

Signed in accordance with a resolution of the directors.



D. Bastas
Managing Director
Melbourne, 27 February 2007

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 half-year ended 31 December 2006, 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



David Petersen
Partner
Melbourne
27 February 2007

Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	December 2006 \$'000	December 2005 \$'000
Revenue			
Net sales of goods	4	25,081	-
Finance revenue	4	341	218
Other revenue	4	7	-
Total net revenue		25,429	218
Cost of sales		(14,607)	-
Gross Profit		10,822	218
Depreciation and amortisation		(1,540)	(1,212)
Employment costs		(3,931)	(594)
Equity-settled share-based payments		(474)	(505)
Interest payable		(447)	-
Other expenses	4	(4,458)	(673)
Loss before income tax expense		(28)	(2,766)
Income tax expense	5	(636)	-
Loss after tax		(664)	(2,766)
Earnings per share			
Basic (loss) per share (cents per share)		(0.5)	(3.6)
Diluted (loss) per share (cents per share)		(0.5)	(3.6)

Balance Sheet

AS AT 31 DECEMBER 2006

	Notes	December 2006 \$'000	June 2006 \$'000
CURRENT ASSETS			
Cash and cash equivalents	6	11,462	14,989
Trade and other receivables		11,542	1,460
Inventories		7,664	1,870
Other current assets		343	1,010
TOTAL CURRENT ASSETS		31,011	19,329
NON-CURRENT ASSETS			
Property, plant and equipment		979	278
Intangible assets	9	80,376	21,175
Deferred tax asset		305	-
TOTAL NON-CURRENT ASSETS		81,660	21,453
TOTAL ASSETS		112,671	40,782
CURRENT LIABILITIES			
Trade and other payables		9,640	3,143
Income tax payable		474	-
Provisions		420	155
TOTAL CURRENT LIABILITIES		10,534	3,298
NON CURRENT LIABILITIES			
Interest bearing liability		12,739	-
Deferred tax liability		538	-
Provisions		74	-
TOTAL NON CURRENT LIABILITIES		13,351	-
TOTAL LIABILITIES		23,885	3,298
NET ASSETS		88,786	37,484
EQUITY			
Issued capital and reserves attributable to equity holders of the Company			
Issued capital	11	95,719	46,896
Accumulated losses		(11,812)	(11,148)
Convertible note - equity		2,669	-
Other reserves		2,210	1,736
TOTAL EQUITY		88,786	37,484

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	December 2006 \$'000	December 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		26,360	-
Payments to suppliers and employees		(24,688)	(1,254)
Income taxes paid		(99)	
Interest received		341	218
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		<u>1,914</u>	<u>(1,036)</u>
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(301)	(73)
Payments on behalf of related parties		-	(23)
Payments for intangible assets		(612)	(146)
Acquisition of subsidiary, net of cash acquired	15	<u>(53,260)</u>	<u>-</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(54,173)</u>	<u>(242)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	11	51,692	-
Transaction costs from issue of shares		(2,926)	-
Other cash flows used in financing activities		<u>(34)</u>	<u>-</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>48,732</u>	<u>-</u>
NET DECREASE IN CASH HELD		(3,527)	(1,278)
Cash and cash equivalents at beginning of period		<u>14,989</u>	<u>8,472</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	<u>11,462</u>	<u>7,194</u>

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Issued Capital \$'000	Accumulated Losses \$'000	Convertible Notes - Equity \$'000	Other Reserves \$'000	Total \$'000
At 1 July 2005	35,650	(5,547)	-	889	30,992
Loss for the period	-	(2,766)	-	-	(2,766)
Share-based payments	-	-	-	505	505
At 31 December 2005	35,650	(8,313)	-	1,394	28,731
At 1 July 2006	46,896	(11,148)	-	1,736	37,484
Loss for the period	-	(664)	-	-	(664)
Share-based payments	-	-	-	474	474
Shares issued	51,749	-	-	-	51,749
Transaction costs on share issue	(2,926)	-	-	-	(2,926)
Convertible notes issued - equity value	-	-	2,675	-	2,675
Transaction costs on issue of conv. notes - equity value	-	-	(6)	-	(6)
At 31 December 2006	95,719	(11,812)	2,669	2,210	88,786

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1 CORPORATE INFORMATION

The financial report of Genepharma Australasia Limited (the Company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 27 February 2007. Genepharma Australasia Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half-year financial report should be read in conjunction with the annual financial report of Genepharma Australasia Limited as at 30 June 2006. It is also recommended that the half-year financial report be considered together with any public announcements made by Genepharma Australasia Limited during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of preparation and statement of compliance

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

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

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

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

(b) Significant accounting policies

Unless otherwise stated, the half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006. Australian Accounting Standards and Interpretations that were mandatory for adoption by the Group from 1 July 2006 had no impact on this half-year financial report.

(c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Genepharma Australasia Limited and its subsidiaries as at 31 December 2006 ('the Group').

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

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Changes in Accounting Policies

New Accounting Policies

These accounting policies relate to transactions entered into during the period and have no impact on prior periods as this is the first time such transactions have been entered into.

(i) Employee leave benefits

Wages, salaries and annual leave

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

Long service leave

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

(ii) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Changes in Accounting Policies (continued)

New Accounting Policies (continued)

(ii) Goodwill (continued)

The allocation of goodwill relating to the Group is based on fair values of the Group's identifiable assets. At the date of this report fair values in relation to the value of separately identifiable intangibles and the tax position of the Group have only been determined provisionally. Accordingly, goodwill recorded in the Group's consolidated financial statements may change during the 12-month period after the acquisition during which fair value adjustments are permitted.

(iii) Non-cumulative redeemable convertible notes

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

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

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

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

(iv) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

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

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

3 SEGMENT INFORMATION

Business segments

The following table presents revenue and profit information regarding business segments for the half-year period ended 31 December 2006. Note that for the half-year ended 31 December 2005 the Company did not operate separate business segments.

	Pharmacy \$'000	Wholesale \$'000	Total \$'000
Half-year ended 31 December 2006			
Revenue			
Segment revenue - sales to external customers	20,877	4,204	25,081
Unallocated income			<u>7</u>
Total Income			<u>25,088</u>
Result			
Segment result	<u>3,275</u>	<u>793</u>	4,068
Unallocated items			(3,991)
Profit before tax, finance costs and finance revenue			<u>77</u>

Detail of segments

Pharmacy

Includes revenue from the sale of prescription and over the counter products to pharmacy and hospital customers.

Wholesale

Includes revenue from non pharmacy/hospital customers.

Geographical segments

The Group operates as a distributor and marketer of pharmaceutical and ancillary products. These activities are conducted entirely within Australia.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	December 2006 \$'000	December 2005 \$'000
4 REVENUE AND EXPENSES		
(a) Revenue and expenses from continuing operations		
(i) Revenue		
Sale of goods	25,081	-
Finance revenue	341	218
Other	7	-
	<u>25,429</u>	<u>218</u>
(ii) Other expenses		
Advertising and marketing	1,115	66
Consulting and professional fees	378	88
Freight out	378	-
Insurance	127	20
Motor vehicle leasing	189	29
TGA/other registration costs	476	-
Rent	279	45
Telephone and internet	129	25
Travel	318	143
Other	1,069	257
	<u>4,458</u>	<u>673</u>
(b) Seasonality		

The financial results are not impacted by any seasonality issues.

5 INCOME TAX

The major components of income tax expense for the half-year ended 31 December 2006 and 31 December 2005 are:

Income Statement

Current income tax

Current income tax charge	117	-
Adjustments in respect of current income tax of previous years	-	-

Deferred income tax

Relating to origination and reversal of temporary differences	519	-
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Income tax expense reported in the income statement	<u>636</u>	<u>-</u>
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The Group is in the process of investigating its ability to consolidate for tax purposes and therefore the tax balances are provisional and subject to change. The tax calculations are currently based on two stand alone business units. The Group anticipates that by the end of the financial year consolidation of the two businesses for tax purposes will have been implemented.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	December	December
	2006	2005
	\$'000	\$'000

6 CASH AND CASH EQUIVALENTS

For the purpose of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

Cash at bank and in hand	(34)	194
Short-term deposits	11,496	7,000
	<u>11,462</u>	<u>7,194</u>

7 INVENTORIES

During the half-year ended 31 December 2006 inventory write-backs recognised in the accounts totalled \$481,113 [2005: nil] for the Group. The write-back of the provision is included in the cost of sales line item as a cost of inventories.

8 PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the half-year ended 31 December 2006, the Group acquired assets with a cost of \$299,998 [2005: \$73,449].

No assets were disposed of by the Group during the half-year ended 31 December 2006 [2005: \$Nil].

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

9 INTANGIBLE ASSETS

	Distribution Agreement and Distribution Rights \$'000	Dossier Costs \$'000	Trademarks \$'000	Goodwill \$'000	Total \$'000
Half-year ended 31 December 2006					
At 1 July 2006, net of accumulated amortisation	19,101	2,074	-	-	21,175
Additions	-	612			612
Acquisition of a subsidiary	-	1,825	6,400	51,722	59,947
Amortisation	(1,202)	(156)	-	-	(1,358)
At 31 December 2006, net of accumulated amortisation	<u>17,899</u>	<u>4,355</u>	<u>6,400</u>	<u>51,722</u>	<u>80,376</u>
At 31 December 2006					
Cost (gross carrying amount)	24,041	4,847	6,400	51,722	87,010
Accumulated amortisation	(6,142)	(492)	-	-	(6,634)
Net carrying amount	<u>17,899</u>	<u>4,355</u>	<u>6,400</u>	<u>51,722</u>	<u>80,376</u>

The Group is in the process of renegotiating its distribution agreement with Geneparm Asia Pacific Enterprises. With the assistance of an independent valuation the directors have undertaken an impairment analysis of the book value of the distribution agreement based on the Company's proposed terms of a renegotiated agreement. As at 31 December 2006, given the state of the negotiations, the directors have no reason to believe the book value of the distribution agreement is impaired.

The Group is in the process of finalising its valuation of separately identifiable intangible assets upon the consolidation of Douglas Pharmaceuticals Australia Limited and accordingly these amounts are subject to change.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	December	December
	2006	2005
	\$'000	\$'000

10 SHARE-BASED PAYMENT PLANS

(a) Senior Manager Share Option Plan (SMSOP)

In October 2006 100,000 share options were granted to a senior executive under the Senior Manager Share Option Plan. The options will become exercisable between 1 July 2007 and 30 June 2010. The fair values of the options issued under SMSOP are estimated at the date of grant using the Binomial Valuation Method. The following table gives the assumptions made in determining fair value of options granted during the six-month periods ending 31 December 2006 and 2005:

Dividend yield (%)	0%	-
Expected volatility (%)	35%	-
Risk-free interest rate (%)	6.1%	-
Early exercise multiple/expected life	2.17	-
Contractual life (years)	3.67	-

The fair value of these options were assessed at \$0.21 per option.

(b) Pharmacy Loyalty Programme Share Option Plan

During the period 29 November to 31 December 2006, 625,702 share options were granted to eligible pharmacists under the Pharmacy Loyalty Share Option Plan. The options are issued for a term of two years and are exercisable between 1 January 2007 and 31 December 2008.

The fair value of the loyalty programme cannot be estimated directly given the difficulty in valuing the fair value of the loyalty. Therefore the fair values of the Loyalty Programme Awards issued under the plan have been estimated indirectly by reference to the fair value of the options granted using the Binomial Valuation Method. The following table gives the assumptions made in determining fair value of options granted during the six-month periods ended 31 December 2006 and 2005:

Dividend yield (%)	0%	-
Expected volatility (%)	35%	-
Risk-free interest rate (%)	6.1%	-
Early exercise multiple/expected life	1	-
Contractual life (years)	2	-

The fair value of these options were assessed at \$0.53 per option.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	December 2006 \$'000	December 2005 \$'000
11 CONTRIBUTED EQUITY	31 December 2006 \$'000	30 June 2006 \$'000
Ordinary shares		
Issued and fully paid	95,719	46,896
	Number of Shares	\$
Movements in ordinary shares on issue		
At 1 July 2006	87,492,000	46,896
Issued on 14 July 2006	51,691,600	51,691
Issued on 1 December 2006	58,228	58
Transaction costs on share issue		(2,926)
At 31 December 2006	139,241,828	95,719

12 RELATED PARTY DISCLOSURES

As at 31 December 2006, Genepharma Australasia Limited had a loan receivable from Genepharma Asia Pacific Enterprises, a director related entity of A.N. Vigopoulos, for \$23,989 [30 June 2006: \$23,989] in relation to recoverable costs. No amounts were paid or received between Genepharma Australasia Limited and Genepharma Asia Pacific Enterprises during the six months ended 31 December 2006. During the half-year a credit note to the value of \$1.05 million was received from Genepharma Asia Pacific Enterprises in relation to a return of inventory (2005: Nil).

13 CONTINGENT LIABILITIES

As at 31 December 2006, there were no contingent liabilities (31 December 2005: Nil).

14 EVENTS AFTER BALANCE SHEET DATE

No significant events occurred between 31 December 2006 and the date of this report (31 December 2005: Nil).

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

15 BUSINESS COMBINATIONS

Acquisition of Douglas Pharmaceuticals Australia Limited

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

The total cost of the acquisition was \$71,316,010 and comprised a cash payment to and convertible notes issued to the vendor and costs directly attributable to the acquisition.

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

	CONSOLIDATED	
	Recognised on acquisition \$'000	Carrying value \$'000
	<u> </u>	<u> </u>
Property, plant and equipment	583	583
Deferred tax asset	453	453
Cash and cash equivalents	2,947	2,947
Trade receivables	8,779	8,779
Prepayments	177	177
Inventories	5,346	5,346
Intangible assets	1,825	1,825
Trademarks	6,400	8,000
Other	58	58
	<u>26,568</u>	<u>28,168</u>
Trade payables	5,592	5,592
Employee provisions	280	280
GST payable	479	479
Income tax payable	455	455
Deferred tax liability	168	168
	<u>6,974</u>	<u>6,974</u>
Fair value of identifiable net assets	19,594	21,194
Goodwill arising on acquisition	51,722	
	<u>71,316</u>	
Cost of the combination:		
Cash consideration	55,000	
Convertible notes issued	15,000	
Costs associated with the acquisition	1,316	
	<u>71,316</u>	

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

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

15 BUSINESS COMBINATIONS (continued)

Acquisition of Douglas Pharmaceuticals Australia Limited (continued)

The cash outflows of the acquisition were as follows:

Cash from acquired business	2,947
Cash payment for acquisition	(55,000)
Costs associated with the acquisition	<u>(1,207)</u>
	<u>(53,260)</u>

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

Consideration	70,000
Loans from Douglas Group repaid	(25,316)
Provision for income tax payable	<u>(2,043)</u>
	42,641
Costs associated with the acquisition	<u>1,316</u>
Carrying value of investment (eliminated on consolidation)	<u>43,957</u>

From the date of acquisition, Douglas Pharmaceuticals Australia Limited has contributed \$1,245,860 to the net profit of the Group.

If the combination had taken place at the beginning of the year, the loss from continuing operations for the Group would have been \$13,601 and revenue from continuing operations would have been \$26,977,252.

The Group is in the process of finalising its valuation of separately identifiable intangible assets upon the consolidation of Douglas Pharmaceuticals Australia Limited and accordingly these amounts are subject to change.

Directors' Declaration

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

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001, including:*
 - (i) give a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the 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.

On behalf of the Board



D. Bastas

Director

Melbourne, 27 February 2007

INDEPENDENT REVIEW REPORT

To the members of Genepharma Australasia Limited

Report on the Half-Year Condensed Financial Report

We have reviewed the accompanying half year financial report of Genepharma Australasia Limited and the entities it controlled during the half year which comprises the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Genepharma Australasia Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which immediately follows the Directors' Report.

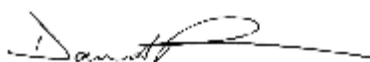
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Geneparm Australasia Limited and the entities it controlled during the half year, is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



David Petersen
Partner
Melbourne
27 February 2007