



PHARMANET
GROUP LIMITED

PHARMANET GROUP LIMITED

ABN 98 006 640 553

ANNUAL REPORT 2008

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Corporate Directory

AUSTRALIAN COMPANY NUMBER:

006 640 553

DIRECTORS:

John Palermo (Chairman)
Simon Maxwell Ormsby Watson (Non-Executive)
Christopher John Quirk (Non-Executive)

SECRETARY:

John Palermo
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ASX CODE:

PNO

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Chairman's Report

On behalf of the Board, I have pleasure in presenting the Company's Annual Report and the results for the 2008 financial year.

During the reporting period ended 30 June 2008, the Company has been active in pursuing the primary objective to finalise the preparation for the re-launch of the Thermalife™ Cream onto the Australian market.

During the period, the Company completed the relocation and commissioning of essential production equipment into a Melbourne facility which provides the Company with the active ingredient for the manufacture of the product. In addition, the Company has identified and entered into arrangements with a GMP manufacturing facility in Melbourne to produce the end product.

To accelerate the scale-up from laboratory to commercial scale, the Company appointed a highly experienced production scientist to assist and coordinate the process. Testing during this scale-up process identified a number of areas which required updating of procedures in accordance with current quality assurance and GMP requirements as well as production scale validation of the active ingredient.

The market re-entry has been delayed due to testing and validation. As at the date of this report, the Thermalife™ production reactor installed in Melbourne is undergoing pre-production trials which will shortly be completed.

The intellectual property portfolio continues to be updated and enhanced. The first of the international patents to be granted was by the South African patent office for the composition of matter designed to protect the proprietary processes regarding analgesic and anti-inflammatory activities. This patent is the foundation of the Cambridge Scientific intellectual property strategy. A number of other applications are undergoing examination at various stages in other jurisdictions and results are expected in the near future from these reviews.

I encourage all members to read our Review of Operations which contains detailed information on the year's activities.

I acknowledge the efforts of all members of the scientific team and our consultants both in Perth and Melbourne and the assistance given to us by our active ingredient supplier in the process of the scale-up to production.

I would also like to express my acknowledgement for the assistance given by Dr Chris Quirk during the course of the year.

Dated at Perth this 26th day of September, 2008.



John Palermo

Chairman

Review of Operations

The year under review has been one of solid progress for the Company as it focused its main activities on production validation for its TGA registered Thermalife™ Cream.

During the year, the Company secured and validated a production scale source for the naturally derived proteins underlying the Thermalife™ active ingredients. The Company completed the relocation and commissioning of essential production equipment into the Melbourne facilities of the active ingredients manufacturer. Active ingredient scale-up trials are being conducted in Melbourne and are expected to be finalised in the coming months, followed by initial production trials of the Thermalife™ Cream at a GMP facility. The Group has recently appointed a highly experienced production scientist for accelerating the Thermalife™ production program. The year ended with the news that the first patent of the Company's Tripeptofen portfolio had been granted. This brought the Company closer to its goal of growing shareholder value through the generation of revenue from its Thermalife™ products, through the development of line extension products based on the Thermalife™ pharmacology, and through the development and licensing of active ingredients derived from the Tripeptofen platform.

THERMALIFE™

Thermalife™ Cream was registered in 1988 by Thermalife International Pharmaceuticals Pty Ltd, a wholly owned subsidiary of Pharmanet Group Ltd. Currently, Thermalife™ Cream is regulated by the Office of Complementary Medicine within the Therapeutic Goods Administration under the Therapeutic Goods Act. The approved therapeutic indication is for temporary relief from muscular and arthritic pain. Thermalife™ Cream contains 40% of the proprietary active ingredient Nutracel. Nutracel is derived from a natural protein source combined with a series of trace elements, which have known activities in reducing inflammation.

Thermalife™ Cream was well received by patients, especially in the area of acute to sub-acute musculoskeletal pain and inflammation. Over the past 20 years, Thermalife™ Cream has had extensive off-label usage, indicating effectiveness in a series of other disorders, including sun burn.

The unique selling proposition of Thermalife™ Cream includes:

- A broad range of key injury mediating activities in pain, inflammation and disease processes;
- A well established local and topical administration; and
- An 18 year history of safety, efficacy and good tolerability.



Review of Operations (continued)

In the last year, the Company focused on improving the efficiency of its production processes while maintaining compliance with national and international standards. The market re-entry of Thermalife™ Cream was delayed due to difficulties in sourcing the excipients of the original cream formulations, updating procedures in accordance with current Quality Assurance and GMP requirements, identifying a manufacturing site, production scale validation and the use of a naturally derived active ingredient.

Previously, the Company secured a reliable and certified supply of the Thermalife™ Cream protein to meet future production needs and assure batch reliability. During this year, a Melbourne based producer of pharmaceutical grade bovine serum albumin, agreed to produce the Thermalife™ Cream active ingredients. The Thermalife™ Cream production reactor was transported from Perth, installed and commissioned at the Melbourne facility and a number of active ingredient pre-production trials have now been completed.

The active ingredient is formulated into the final Thermalife™ Cream by a GMP manufacturer licensed by the TGA for producing registered therapeutics. The sourcing of the Thermalife™ Cream excipients is largely complete and the TGA has approved the new packaging as well as formulation changes.

The Company has recently appointed Dr Carol Worth as Production Manager. Dr Worth has 20 years experience in product development and manufacture in the biotechnology industry. Dr Worth will lead the Thermalife™ Cream production program ensuring compliance with the complex requirements of Good Manufacturing Practice (GMP) in Australia. Dr Worth will be assisted in the production validation strategies by two Contract Research Organisations, specialists in protein and trace element Quality Assurance, to ensure a successful re-entry of Thermalife™ Cream into the market. Test assays and processes for Quality Assurance and Quality Control for initial production are nearing completion.

The re-introduction of the Thermalife™ Cream to the Australian market is the primary focus of the Company. The development of Savantac™ and RED™ are awaiting the finalisation of the Thermalife™ Cream production scale-up, to ensure the appropriate data are collected for submission to the regulatory authority in Australia. Savantac™ is a line-extension of Thermalife™ Cream and is aimed at the acute musculo-skeletal inflammatory market. The product line RED™ is designed for treatment of acute sun burn.

TRIPLEPTOFEN PLATFORM

Through Cambridge Scientific Pty Ltd, the Company established the Tripeptofen platform containing new analgesic, anti-inflammatory and tissue reparative active ingredients. The Tripeptofen platform uses a proprietary process to break-down proteins into therapeutic agents. The active ingredients target a range of biological mechanisms involved with inflammation, wound healing and pain. Based on the research performed within Cambridge, a new Intellectual Property portfolio was developed in recent years. These patent applications cover pain and inflammation, anti-cytokine activities, COX2 inhibitory activities and burn treatments.

In the last year, Cambridge Scientific has focused on supporting the production scale-up of Thermalife™ Cream. The Cambridge team developed scientific programs for refining and standardising the production stages,

Review of Operations (continued)

identifying and sourcing production materials to the necessary international standards and developing optimal processing steps for each. The need to validate every new production step and to build the necessary quality systems has been a major undertaking for the Company's R&D team.

In the technology development field, the Company undertook an animal pilot study, conducted by the Department of Dermatology and Cutaneous Surgery at Miami University's Miller School of Medicine.

This study served as a trial for two of the Company's active ingredients and as a test of the animal model for further pre-clinical development work. In the pilot study, the University tested active compounds derived from the existing Thermalife™ Cream, and a more recent and advanced ingredient from the Company's Tripeptofen library. These results confirm previous *in-vitro* data and encourage an expansion of the *in-vivo* development program for both Thermalife™ Cream and its derivative products as treatments for burns and photodamage.

INTELLECTUAL PROPERTY PORTFOLIO

The year ended with the news that the South African Patent Office had granted the composition of matter patent designed to protect the proprietary process regarding analgesic and anti-inflammatory activities from the Tripeptofen library. This patent is at the foundation of the Cambridge Scientific Intellectual Property strategy.

The same application is in advanced stages of examination in other jurisdictions and similar positive results are anticipated from the USA, European and Australian Patent Offices in the near future.

Building upon this foundation patent application, three additional patent applications were filed in previous years covering the use in Tissue Disruption, Cox-2 Inhibition and Cytokines, and Secondary Injury mediation. The Tissue Disruption patent application has entered the National Phase this year in seven major jurisdictions, including the USA. Additional applications are expected as new biological targets and activities are identified and verified in the coming year.

In this manner, the Company manages the Intellectual Property pipeline from a supply line perspective, at the application level and finally at the molecular interaction level. This framework is constantly being expanded as more research data comes to hand.

GRANTED PATENTS

Cambridge Scientific currently holds one granted South African patent. *South African patent 2007/07291* was granted on 17/06/2008 in the name of Cambridge Scientific Pty Ltd. Patent 2007/07291 covers the use and manufacture of an Analgesic and Anti-inflammatory Composition. The same application is in examination in the USA, Canada, Europe, India, New Zealand and Australia.

Review of Operations (continued)

PATENT APPLICATIONS IN NATIONAL PHASE

Cambridge Scientific Pty Ltd has two patent applications in National Phase in seven different jurisdictions (i.e. USA, Canada, Europe, India, New Zealand, South Africa and Australia).

1. Analgesic and anti-inflammatory composition

The patent application regarding the analgesic and anti-inflammatory composition is in examination in six countries and has been granted in one country.

Application	Filing date	Country	Filing type	Status
11/059580	16/02/05	USA	Complete	Examination
PCT/U2006/000185	10/02/06	Canada	Complete – National Phase entry	Awaiting examination
EP06704862.9	10/02/06	Europe	Complete – National Phase entry	Awaiting examination
5/MUMNP/2007	10/02/06	India	Complete – National Phase entry	Awaiting examination
560737	10/02/06	New Zealand	Complete – National Phase entry	Awaiting examination
PCT/AU2006/000185	10/02/06	South Africa	Complete – National Phase entry	GRANTED
2006212722	10/02/06	Australia	Complete – National Phase entry	Awaiting examination

2. Tissue disruption Treatment and Composition for use

The patent application regarding tissue disruption treatment and composition for use is in examination in seven countries.

Application	Filing date	Country	Filing type	Status
11/218382	01/09/05	USA	Complete	Examination
PCT/AU2006/001288	TBA	Canada	Complete – National Phase entry	Awaiting examination
PCT/AU2006/001288	TBA	Europe	Complete – National Phase entry	Awaiting examination
PCT/AU2006/001288	TBA	India	Complete – National Phase entry	Awaiting examination
567067	TBA	New Zealand	Complete – National Phase entry	Awaiting examination
PCT/AU2006/001288	TBA	Japan	Complete – National Phase entry	Awaiting examination
PCT/AU2006/001288	TBA	Australia	Complete – National Phase entry	Awaiting examination

Review of Operations (continued)

PATENT APPLICATIONS IN PCT PHASE

Application	Filing date	Country	Filing type	Status
Cytokine Mediating Composition PCT/AU2007/000554	27/04/07	International	PCT	Awaiting National Phase 28/10/2008
COX2-Inhibitor PCT/AU2007/000555	27/04/07	International	PCT	Awaiting National Phase 28/10/2008

BUSINESS DEVELOPMENT

Our Business Development strategies remain unchanged.

These are to:

- reintroduce Thermalife™ Cream to the Australian market;
- take existing products into new territorial markets;
- develop line extension products based on the same active ingredient;
- develop new products for new therapeutic indications;
- isolate and identify the active pharmaceutical molecular entities; and
- develop and market cosmetic products.

The Company has remained in contact with potential Pharma partners and the collaborator networks it had generated in previous periods. International marketing activities have not been a priority for the current period. Once production and sales are established in Australia, and further international patents granted, the Company anticipates that its international business development activities will become a greater focus.

STRATEGIC AREAS

As in the past, the Company remains committed to maintaining and building upon its five strategic strengths.

Safety and Efficacy

The Group's technology platform is derived from a product with an unblemished safety and efficacy record for more than 18 years. Safety and efficacy are the two most critical aspects in mediating risks in new drug discoveries.

Topical Administration Route

Very few drugs can be administered successfully through the skin. Treating local inflammation does not need high drug levels in the body, especially when the high levels throughout the body produce side-effects. Thermalife™ Cream and related products can move through the skin, and are presented in the form of a cream. Due to the cream formulation of the product, the likelihood of systemic side-effects, such as gastro-intestinal bleeding or stroke, is very low.

Review of Operations (continued)

Pharmaceutical Pipeline

The Group's pharmaceutical pipeline continues to expand as refinements in production processing, expansion in intellectual property and new developments in testing and isolation grows the pharmaceutical ingredient and product pipelines.

Cosmetic Pipeline

Developing specialised extracts for cosmetic and aesthetics markets is an area of particular interest to the Company. The Company intends to create a new and distinct cosmetic pipeline with multiple biological benefits. It is anticipated that these biological actions will provide a wider range of consumer-focused benefits ranging from anti-photoaging, post-resurfacing treatments and post-sun products, all with global market potential and relatively low regulatory hurdles.

Approvals

Existing product approvals in Australia allow the Group to manufacture and distribute high value added products in Australia. In addition, these existing approvals may provide a regulatory pathway short-cut for opportunities in new therapeutic fields and indications.

Directors' Report

The directors present their report on the results of Pharmanet Group Limited and of the Consolidated Entity (being Pharmanet Group Limited and its Controlled Entities) for the year ended 30 June 2008 and the state of affairs of the Company and of the Consolidated Entity at that date.

DIRECTORS

The directors of the Parent Entity in office during the year and at the date of this report are:

John Palermo

Simon Maxwell Ormsby Watson

Christopher John Quirk

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the Consolidated Entity were research, development, investment and manufacture and distribution of pharmaceutical products.

OPERATING RESULTS

The net amount of the consolidated loss of the Consolidated Entity for the year after providing for income tax was \$925,195 (2007: \$1,157,963).

DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 30 June 2008.

REVIEW OF OPERATIONS

The Company continues to pursue business opportunities in the health care industry and related areas, review its intellectual property assets and evaluate value enhancement opportunities from existing assets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There have been no significant events after balance date, other than as disclosed on note 18.

ENVIRONMENTAL REGULATION

The Consolidated Entity has assessed whether there are any particular or significant environmental regulations which apply. It has determined that the risk of non-compliance is low, and has not identified any compliance breaches during the year.

Directors' Report (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Consolidated Entity expects to continue to develop and implement its investment and business strategy in the areas of healthcare and biotechnology.

PARTICULARS OF DIRECTORS

John Palermo B.Bus, FCA, FCPA, JP

Mr Palermo is a Chartered Accountant and a consultant to the Chartered Accounting practice, Palermo Chartered Accountants. He was the Principal of that practice from 1978 to 2006. His main areas of expertise are corporate consultancy services and company administration. During the past three years, Mr Palermo has also served as a director of the following other listed companies:

- Pelican Resources Ltd *
- Consolidated Global Investments Ltd *
- Gladiator Resources Ltd *

(* denotes current directorship)

Simon Maxwell Ormsby Watson LLB, B.Ec

Mr Watson has been in private practice since 1971, specialising in the field of commercial law. His legal expertise provides an important contribution to the Company. During the past three years, he has not held directorships in any other listed companies.

Christopher John Quirk

Dr Quirk is an Australian dermatologist who has been a teaching hospital consultant for 23 years and has conducted numerous trials for international pharmaceutical companies such as Roche, Novartis, 3M and Matrix and has served on advisory boards for Merck, Allergan and Roche. He has published 22 papers in international journals and recently has presented at the World Congress of Dermatology in Paris and the World Congress on Cancers of the Skin in Seville. During the past three years, Dr Quirk has also served as a director of the following other listed companies:

- OBJ Ltd *

(* denotes current directorship)

Directors' Report (continued)

COMPANY SECRETARY

John Palermo B.Bus, FCA, FCPA, JP

Mr Palermo has been the Company Secretary of Pharmanet Group Limited since 1987. He is a Chartered Accountant and a consultant to the Chartered Accounting practice, Palermo Chartered Accountants. He was the Principal of that practice from 1978 to 2006. His main areas of expertise are corporate consultancy services and company administration.

SHARE OPTIONS

As at the date of this report, the following options remained outstanding:

No.	Exercise Price	Due Date
237,836,524	\$0.05	31 December 2008
1,500,000	\$0.05	31 December 2008
37,500,000	\$0.05, \$0.10 and \$0.15	31 December 2010
8,000,000	\$0.015 and \$0.025	31 December 2011

No persons entitled to exercise an option had or has any right by virtue of the option to participate in any future share issues.

DIRECTORS' MEETINGS

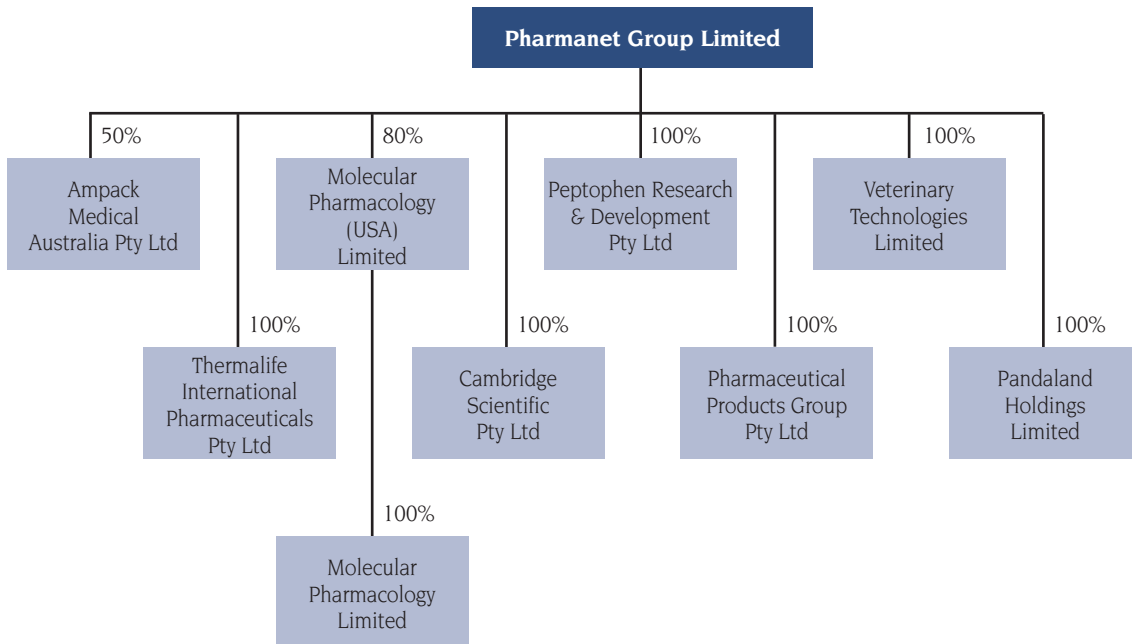
During the financial year ended 30 June 2008, the Company held 8 directors' meetings, including directors' resolutions. The total number of meetings attended and circular resolutions executed by each director were:

	Meetings Attended	Eligible to Attend
John Palermo	8	8
Simon Maxwell Ormsby Watson	8	8
Christopher John Quirk	8	8

CORPORATE STRUCTURE

Pharmanet Group Limited is a company limited by shares that is incorporated and domiciled in Australia. The principal place of business is located at Level 1, 284 Oxford Street, Leederville, Western Australia. The ultimate parent entity is Pharmanet Group Limited. Pharmanet Group Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure:

Directors' Report (continued)



CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Pharmanet Group Limited support and have adhered to the principles of corporate governance.

The Company's corporate governance statement is contained after the additional ASX information section of this Annual Report.

DIRECTORS AND OFFICERS INDEMNIFICATION

The Company has during or since the end of the financial year:

Indemnified or made relevant agreements for indemnifying an officer or director of the Company against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Directors' Report (continued)

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the Company.

Remuneration policy (audited)

The remuneration policy of Pharmanet Group Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's ability to attract and retain the best executives and directors to run and manage the consolidated entity.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is as follows:

The remuneration policy setting out the terms and conditions for the executive directors and other senior executives was developed by the Board.

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice.

As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Company's diverse operations.

Remuneration and other terms of employment for the executive directors and certain other senior executives are being formalised in service agreements.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time and which currently stands at \$250,000 per annum.

The Board undertakes an annual review of its performance against goals set at the start of the year. The Board may exercise discretion in relation to approving incentives, bonuses, and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed.

Performance-based remuneration (audited)

The Company currently has no performance-based remuneration component built into director and executive remuneration packages.

Directors' Report (continued)

REMUNERATION REPORT (continued)

Key management personnel compensation (audited)

The following persons were directors of Pharmanet Group Limited during the financial year:

Chairman – Executive

J Palermo

Non-executive Directors

S M O Watson

C J Quirk

There are no other key management personnel in positions of control or exercising management authority.

Details of the nature and amount of each major element of the emoluments of each director of the consolidated entity and each of the named executive officers of the consolidated entity, receiving the highest emoluments, for the financial years ended 30 June 2008 and 30 June 2007 are:

	Primary Salary & Fees (\$)	Cash Bonus (\$)	Non- Monetary (\$)	Post Employment Superann- uation (\$)	Retirement Benefits (\$)	Equity Options (\$)	Other Benefits (\$)	TOTAL (\$)
Directors								
Palermo, J: Chairman (executive)								
2008	–	–	–	–	–	48,600	9,490	58,090
2007	100,000	–	–	–	–	9,660	4,500	114,160
Watson, S M O: Director (non-executive)								
2008	–	–	–	–	–	24,300	–	24,300
2007	–	–	–	–	–	9,660	–	9,660
Quirk, C J: Director (non-executive)								
2008	–	–	–	–	–	24,300	–	24,300
2007	–	–	–	–	–	9,660	–	9,660
Total Directors								
2008	–	–	–	–	–	97,200	9,490	106,690
2007	100,000	–	–	–	–	28,980	4,500	133,480

Directors' Report (continued)

REMUNERATION REPORT (continued)

REMUNERATION OPTIONS (2008)

	Grant No.	Grant Date	Vested No.	Value Per Option at Grant Date \$	Terms & Conditions for Each Grant		
					Exercise Price \$	First Exercise Date	Last Exercise Date
J Palermo	2,000,000	30/11/2007	2,000,000	\$0.0124	\$0.015	30/11/2007	31/12/2011
	2,000,000	30/11/2007	2,000,000	\$0.0119	\$0.025	30/11/2007	31/12/2011
S M O Watson	1,000,000	30/11/2007	1,000,000	\$0.0124	\$0.015	30/11/2007	31/12/2011
	1,000,000	30/11/2007	1,000,000	\$0.0119	\$0.025	30/11/2007	31/12/2011
C J Quirk	1,000,000	30/11/2007	1,000,000	\$0.0124	\$0.015	30/11/2007	31/12/2011
	1,000,000	30/11/2007	1,000,000	\$0.0119	\$0.025	30/11/2007	31/12/2011

During the year ended 30 June 2008, no options issued to directors and consultants for remuneration purposes were forfeited, lapsed or exercised.

REMUNERATION OPTIONS (2007)

	Grant No.	Grant Date	Vested No.	Value Per Option at Grant Date \$	Terms & Conditions for Each Grant		
					Exercise Price \$	First Exercise Date	Last Exercise Date
J Palermo	6,000,000	21/12/2006	6,000,000	\$0.00308, \$0.00119 and \$0.00056	\$0.05, \$0.10 and \$0.15	21/12/2006	31/12/2010
S M O Watson	6,000,000	21/12/2006	6,000,000	\$0.00308, \$0.00119 and \$0.00056	\$0.05, \$0.10 and \$0.15	21/12/2006	31/12/2010
C J Quirk	6,000,000	21/12/2006	6,000,000	\$0.00308, \$0.00119 and \$0.00056	\$0.05, \$0.10 and \$0.15	21/12/2006	31/12/2010

The grant of options is to provide an incentive to each of the directors for future services they will provide to the Company and an acknowledgement of past services. The directors consider that the incentive provided is cost effective to the Company as opposed to alternative incentives in the form of a monetary bonus or director's fees. The options have been valued using the Black-Scholes Valuation method.

Directors' Report (continued)

REMUNERATION REPORT (continued)

The model inputs for options granted during the year ended 30 June 2008 included:

- (a) options are granted for no consideration (2007: Nil)
- (b) exercise price: \$0.015 and \$0.025 (2007: \$0.05, \$0.10 and \$0.15)
- (c) grant date: 30 November 2007 (2007: 21 December 2006)
- (d) expiry date: 31 December 2011 (2007: 31 December 2010)
- (e) share price at grant date: \$0.014 (2007: \$0.021)
- (f) expected price volatility of the Company's shares: 150% (2007: 50%)
- (g) risk-free interest rate: 6.5% (2007: 5.93%)

Additional information (audited)

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on page 14, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below:

Name	Cash Bonus		Options					
	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
J Palermo	-	-	2008	100	-	-	-	-
			2007	100	-	-	-	-
S M O Watson	-	-	2008	100	-	-	-	-
			2007	100	-	-	-	-
C J Quirk	-	-	2008	100	-	-	-	-
			2007	100	-	-	-	-

Directors' Report (continued)

REMUNERATION REPORT (continued)

Share-based compensation: options

Further details relating to options are set out below:

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
J Palermo	84%	48,600	–	–	48,600
S M O Watson	100%	24,300	–	–	24,300
C J Quirk	100%	24,300	–	–	24,300

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year. Lapsed options refer to options that vested but expired unexercised.

INTERESTS IN SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the directors' interests in shares and options of Pharmanet Group Limited were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
John Palermo	1,371,875	22,000,000
Simon Maxwell Ormsby Watson	12,502,769	23,027,311
Christopher John Quirk	–	9,900,000

Directors' Report (continued)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 21.

NON-AUDIT SERVICES

Any non-audit services that may have been provided by the entity's auditor, RSM Bird Cameron Partners, is shown at Note 21. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

RSM Bird Cameron Partners continues in office in accordance with section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.



JOHN PALERMO

Director

Dated at Perth this 26th day of September, 2008.

RSM Bird Cameron Partners

Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

PHARMANET GROUP LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Pharmanet Group Limited ("the company"), which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

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Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Pharmarec Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, we draw attention to Note 1(a) in the financial report, which indicates that:

- (a) during the year ended 30 June 2008, the company and consolidated entity incurred net losses of \$1,152,433 and \$925,195 respectively;
- (b) during the year ended 30 June 2008, the company and consolidated entity had cash outflows from operating activities of \$1,076,953 and \$1,026,603 respectively; and
- (c) at balance date, the company and consolidated entity had net current liabilities of \$61,168 and \$87,932 respectively.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have checked the Remuneration Report contained in the directors' report for the financial year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit, conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Pharmarec Group Limited for the financial year ended 30 June 2008 complies with section 300A of the *Corporations Act 2001*.

Perth, WA
Dated:

26 September 2008

RSM Bird Cameron Partners
RSM BIRD CAMERON PARTNERS
Chartered Accountants
S. Scubitt
S. SCUBITT
Partner

RSM Bird Cameron Partners

Chartered Accountants

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www.rsmbirdcameron.com

AUDITOR INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Pharmanet Group Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Perth, WA

Dated: 26 September 2008

RSM Bird Cameron Partners
RSM BIRD CAMERON PARTNERS
Chartered Accountants

Scudliff
S C CUBITT
Partner

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ARL: 35 955 185 066

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Directors' Declaration

In accordance with a resolution of the directors of Pharmanet Group Ltd, we state that:

- 1) In the opinion of the directors:
 - (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - ii) complying with Accounting Standards and Corporation Regulation 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; and
 - (c) the audited remuneration disclosures set out on pages 13 to 17 of the directors' report comply with Accounting Standards AASB124 Related Party Disclosures and the Corporations Regulations 2001.

- 2) The directors acting in place of the Chief Executive Officer and Chief Finance Officer have declared that:
 - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.

On behalf of the Board.



JOHN PALERMO

Director

Perth, Western Australia

Dated at Perth this 26th day of September, 2008.

PHARMANET GROUP LIMITED AND ITS CONTROLLED ENTITIES

Income Statement for the Year Ended 30 June 2008

	NOTE	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	3	36,081	27,218	34,685	27,218
Other income	3	242,320	89,854	11,150	89,854
Borrowing costs	4(a)	(79,453)	(87,667)	(79,292)	(87,667)
Depreciation expense	4(a)	(5,761)	(4,168)	(2,197)	(2,144)
Administration expenses	4(b)	(130,088)	(120,450)	(79,397)	(76,697)
Auditor's remuneration	4(b)	(75,277)	(113,407)	(29,197)	(29,675)
Communication costs	4(b)	(3,222)	(4,469)	(2,614)	(3,654)
Company secretarial expenses	4(b)	(32,500)	(30,000)	(32,500)	(30,000)
Consulting and legal expenses	4(b)	(487,780)	(665,950)	(193,457)	(164,886)
Director and employee benefits expense	4(b)	(134,341)	(44,966)	(97,200)	(28,980)
Patent expenses	4(b)	(91,057)	(1,535)	–	–
Product samples and consumables	4(b)	(27,233)	(28,851)	–	–
Rent premises	4(b)	(31,320)	(18,957)	–	–
Travel and accommodation expense	4(b)	(13,443)	(48,931)	–	(2,231)
Write down of investments and loans	4(b)	(6,006)	(17,990)	(634,719)	(767,755)
Other expenses	4(b)	(98,626)	(87,694)	(48,697)	(67,328)
Outside equity interest assumed by Company		12,511	–	–	–
Loss before income tax		(925,195)	(1,157,963)	(1,153,435)	(1,143,945)
Income tax expense	5	–	–	–	–
Loss after income tax		(925,195)	(1,157,963)	(1,153,435)	(1,143,945)
Loss attributable to members of Pharmanet Group Limited		(925,195)	(1,157,963)	(1,153,435)	(1,143,945)

		Cents Per Share	
		2008	2007
Earnings per share			
Basic loss per share	26	(0.003)	(0.004)

Where diluted earnings per share are not dilutive they are not disclosed.

The above income statement should be read in conjunction with the accompanying notes.

PHARMANET GROUP LIMITED AND ITS CONTROLLED ENTITIES

Balance Sheet as at 30 June 2008

	NOTE	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	6	583,218	502,876	544,035	462,963
Trade and other receivables	7	–	2,622	–	2,622
Other	9	54,815	46,441	34,005	18,543
TOTAL CURRENT ASSETS		638,033	551,939	578,040	484,128
NON CURRENT ASSETS					
Trade and other receivables	7	–	–	–	–
Other financial assets	8	–	–	1	1
Plant and equipment	10	67,809	14,168	6,093	6,948
TOTAL NON CURRENT ASSETS		67,809	14,168	6,094	6,949
TOTAL ASSETS		705,842	566,107	584,134	491,077
CURRENT LIABILITIES					
Trade and other payables	11	313,444	524,572	259,228	269,303
Interest bearing liabilities	12	400,000	610,000	400,000	610,000
Other	13	12,221	1,178	–	–
TOTAL CURRENT LIABILITIES		725,665	1,135,750	659,228	879,303
NON CURRENT LIABILITIES					
Interest bearing liabilities	12	410,000	–	410,000	–
TOTAL NON CURRENT LIABILITIES		410,000	–	410,000	–
TOTAL LIABILITIES		1,135,665	1,135,750	1,069,228	879,303
NET ASSETS/(LIABILITIES)		(429,823)	(569,643)	(485,094)	(388,226)
EQUITY					
Contributed equity	14	20,590,888	19,624,371	20,590,888	19,624,371
Reserves	15	696,900	610,913	699,726	609,676
Accumulated losses		(21,717,611)	(20,804,927)	(21,775,708)	(20,622,273)
Total parent equity interest		(429,823)	(569,643)	(485,094)	(388,226)
Minority equity interest		–	–	–	–
TOTAL EQUITY/(DEFICIENCY)		(429,823)	(569,643)	(485,094)	(388,226)

The above balance sheet should be read in conjunction with the accompanying notes.

Statement in Changes in Equity for the Year Ended 30 June 2008

	Ordinary Share Capital	Foreign Currency Transaction Reserve	Share Based Payments Reserve	Minority Equity Interest	Accumulated Losses	Total
	\$	\$	\$	\$	\$	\$
Consolidated						
Balance at 01/07/2006	18,309,171	415	454,880	–	(19,495,262)	(730,796)
Foreign currency translation reserve	–	822	–	–	–	822
Loss attributable to members of parent entity	–	–	–	–	(1,157,963)	(1,157,963)
Net recognised income & expense	–	822	–	–	(1,157,963)	(1,157,141)
Shares issued during the year	1,350,000	–	–	–	–	1,350,000
Options issued during the year	–	–	179,060	–	–	179,060
Transaction costs	(34,800)	–	(24,264)	–	–	(59,064)
Outside equity interest	–	–	–	(151,702)	–	(151,702)
Outside equity interest assumed by Company	–	–	–	151,702	(151,702)	–
Balance at 30/06/2007	19,624,371	1,237	609,676	–	(20,804,927)	(569,643)
Balance at 01/07/2007	19,624,371	1,237	609,676	–	(20,804,927)	(569,643)
Foreign currency translation reserve	–	(4,063)	–	–	–	(4,063)
Loss attributable to members of parent entity	–	–	–	–	(925,195)	(925,195)
Net recognised income & expense	–	(4,063)	–	–	(925,195)	(929,258)
Shares issued during the year	1,020,000	–	–	–	–	1,020,000
Options issued during the year	–	–	97,200	–	–	97,200
Transaction costs	(53,483)	–	(7,150)	–	–	(60,633)
Outside equity interest	–	–	–	12,511	–	12,511
Outside equity interest assumed by Company	–	–	–	(12,511)	12,511	–
Balance at 30/06/2008	20,590,888	(2,826)	699,726	–	(21,717,611)	(429,823)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

PHARMANET GROUP LIMITED AND ITS CONTROLLED ENTITIES

Statement in Changes in Equity for the Year Ended 30 June 2008 (continued)

	Ordinary Share Capital	Foreign Currency Transaction Reserve	Share Based Payments Reserve	Minority Equity Interest	Accumulated Losses	Total
	\$	\$	\$	\$	\$	\$
Parent Entity						
Balance at 01/07/2006	18,309,171	–	454,880	–	(19,478,328)	(714,277)
Loss attributable to members of parent entity	–	–	–	–	(1,143,945)	(1,143,945)
Net recognised income & expense	–	–	–	–	(1,143,945)	(1,143,945)
Shares issued during the year	1,350,000	–	–	–	–	1,350,000
Options issued during the year	–	–	179,060	–	–	179,060
Transaction costs	(34,800)	–	(24,264)	–	–	(59,064)
Balance at 30/06/2007	19,624,371	–	609,676	–	(20,622,273)	(388,226)
Balance at 01/07/2007	19,624,371	–	609,676	–	(20,622,273)	(388,226)
Loss attributable to members of parent entity	–	–	–	–	(1,153,435)	(1,153,435)
Net recognised income & expense	–	–	–	–	(1,153,435)	(1,153,435)
Shares issued during the year	1,020,000	–	–	–	–	1,020,000
Options issued during the year	–	–	97,200	–	–	97,200
Transaction costs	(53,483)	–	(7,150)	–	–	(60,633)
Balance at 30/06/2008	20,590,888	–	699,726	–	(21,775,708)	(485,094)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement for the Year Ended 30 June 2008

	NOTE	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and others		242,320	–	11,150	–
Payments to suppliers and employees		(1,216,831)	(1,248,585)	(1,034,776)	(1,225,448)
Interest received		27,361	27,218	25,965	27,218
Borrowing costs		(79,453)	(87,667)	(79,292)	(87,667)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	2	(1,026,603)	(1,309,034)	(1,076,953)	(1,285,897)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for plant and equipment		(59,402)	(3,888)	(1,342)	(2,783)
Proceeds from sale of plant and equipment		–	2,384	–	2,384
Other		11,043	(192)	–	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(48,359)	(1,696)	(1,342)	(399)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment borrowings		(410,000)	(500,000)	(410,000)	(500,000)
Proceeds from issue of shares, options and convertible notes		1,630,000	1,496,614	1,630,000	1,496,614
Payment of costs relating to issue of shares and options		(60,633)	(59,064)	(60,633)	(59,064)
Other		–	822	–	–
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		1,159,367	938,372	1,159,367	937,550
Net increase/(decrease) in cash and cash equivalents held		84,405	(372,358)	81,072	(348,746)
Cash and cash equivalents held at the beginning of the financial year		502,876	875,234	462,963	811,709
Effect of exchange rate changes on cash holdings		(4,063)	–	–	–
Cash and cash equivalents held at the end of the financial year	6	583,218	502,876	544,035	462,963

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements for the Year Ended 30 June 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*.

The financial report was authorised for issue by the Board on 26 September 2008.

The financial report of Pharmanet Group Limited complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS), in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

The financial report has been prepared on an accruals basis and is based on historical costs. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Accounting Policies

(a) Going Concern

As disclosed in the financial statements, the parent and consolidated entity recorded operating losses of \$1,153,435 and \$925,195 and had cash outflows from operating activities of \$1,076,953 and \$1,026,603 respectively for the year ended 30 June 2008 and at balance date, the parent and consolidated entity had net current liabilities of \$81,188 and \$87,632 respectively. These factors indicate significant uncertainty whether the Company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The directors believe after consideration of the above matters, there are reasonable grounds to believe that the Company and consolidated entity will be able to pay their debts as and when they become due and payable and are going concerns because of the following factors:

- The ability to issue additional shares under the *Corporations Act 2001*;
- The possible commercial exploitation of the Company's technologies and products at amounts sufficient to meet proposed expenditure commitments;
- Major convertible note holders intend to convert their notes to equity; and/or
- Related party creditors have indicated they will not demand payment of their debts until the Company has sufficient funds to be able to meet the commitment.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Going Concern (continued)

Accordingly, the directors believe that the Company will obtain sufficient funding to enable it and the consolidated entity to continue as going concerns and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

The financial report does not contain any adjustments to the amounts or classification of recorded assets or liabilities that might be necessary if the Company or consolidated entity do not continue as going concerns.

(b) Principles of Consolidation

A controlled entity is any entity Pharmanet Group Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

The controlled entity has a June financial year-end.

A list of controlled entities is contained in Note 23 to the financial statements.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profit will be available against which deductible temporary differences can be utilised.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income Tax (continued)

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value method commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Plant and equipment	10-100%
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(e) Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised on the balance sheet when Pharmanet Group Limited becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(e) Financial Assets and Financial Liabilities (continued)**

Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

Cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts, investments in money market instruments and cash in transit.

Loans and receivables

Financial assets not measured at fair value comprise loans and receivables being non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method.

Trade and other payables

Financial liabilities comprise of trade and other payables, provisions and borrowings are measured at amortised cost using the effective interest method.

(f) Impairment of Assets

At each reporting date, the directors review the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(g) Share Based Payments

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

The fair value of the options granted excluded the impact of any non-market vesting condition. Non-market vesting conditions are included in assumption about the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share Based Payments (continued)

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(h) Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(i) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The Company contributes to retirement funds that provide benefits to employees. The level of contributions is determined by Superannuation Guarantee legislation. The Company has no responsibility for the administration or performance of the funds.

(j) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and service tax (GST).

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Company's controlled entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

Controlled entities

The financial results and position of foreign controlled entities whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign controlled entities are transferred directly to the foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(m) Australian Accounting Standards and Amendments Issued but not yet Effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The directors' assessment of the impact of new standards and interpretations that may affect the Company is set out below:

- (i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The directors have not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

- (ii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Company.

- (iii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Company intends to apply the revised standard from 1 July 2009.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the critical judgements and estimates that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Share-based payment transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes valuation, further details of which are disclosed at Note 27.

NOTE 2: STATEMENT OF CASH FLOWS

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
RECONCILIATION OF THE NET OPERATING LOSS AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS				
Loss after income tax	(925,195)	(1,157,963)	(1,153,435)	(1,143,945)
(Gain)/loss on sale of non-current assets	–	(822)	–	(822)
Depreciation of plant and equipment	5,761	4,168	2,197	2,144
Diminution in value of investment and loans	–	15,000	–	15,000
Equity settled share based payments	97,200	32,446	97,200	32,446
Minority interest for the year	12,511	(151,702)	–	–
Movements in assets and liabilities				
– Accrued income	(8,720)	–	(8,720)	–
– Trade debtors	2,622	2,865	2,622	1,767
– Prepayments	(233)	(2,915)	227	(2,915)
– Accounts payable and accruals	(211,128)	(67,137)	(10,075)	(225,756)
– GST receivable	579	17,026	(6,969)	36,184
Net cash flows used in operating activities	(1,026,603)	(1,309,034)	(1,076,953)	(1,285,897)

Non-cash investing and financing activities

There were no non-cash investing or financing transactions during the year.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 3: REVENUE AND OTHER INCOME

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue from non-operating activities				
Interest – other parties	36,081	27,218	34,685	27,218
Total revenue from non-operating activities	36,081	27,218	34,685	27,218
Total revenues	36,081	27,218	34,685	27,218
Other income				
Research and development tax offset	174,794	–	–	–
Export market development grant	67,526	–	11,150	–
Profit on disposal of plant and equipment	–	822	–	822
Provision for doubtful debts recovered	–	89,032	–	89,032
Total other income	242,320	89,854	11,150	89,854

NOTE 4: EXPENSES AND GAINS/(LOSSES)

(a) Expenses

Depreciation of non-current assets – Plant and equipment	5,761	4,168	2,197	2,144
Operating lease rental	31,320	18,957	–	–
Borrowing costs – other parties	79,453	87,667	79,292	87,667
Consulting costs and legal fees	487,780	665,950	193,457	164,886
Travel and accommodation	13,443	48,931	–	2,231

(b) Significant items

Loss before income tax includes the following expenses whose disclosure is relevant in explaining the financial performance of the entity:

Administration expenses	130,088	120,450	79,397	76,697
Auditor's remuneration	75,277	113,407	29,197	29,675
Company secretarial expenses	32,500	30,000	32,500	30,000
Communication costs	3,222	4,469	2,614	3,654
Director and employee benefits expense	134,341	44,966	97,200	28,980
Patent expenses	91,057	1,535	–	–
Product samples and consumables	27,233	28,851	–	–
Write down of investments and loans	6,006	17,990	634,719	767,755
Other expenses	98,626	87,694	48,697	67,328
	598,350	449,362	924,324	1,004,089

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 5: INCOME TAX

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Under/(over) provision in prior years	-	-	-	-
	-	-	-	-

The prima facie tax on loss before income tax is reconciled to the income tax as follows:

Loss before income tax	(925,195)	(1,157,963)	(1,153,435)	(1,143,945)
Income tax calculated at 30%	(277,558)	(347,389)	(346,031)	(343,184)
Add back:				
Non-allowable expenditure	154,936	(21,042)	220,478	203,368
Deferred tax asset in respect to losses not brought to account	122,622	368,431	125,553	139,816
Income tax expense	-	-	-	-

(b) Tax losses for which no deferred tax asset has been recognised

Unused tax losses	11,128,585	10,434,768	5,646,295	5,169,457
Potential tax benefit @ 30%	3,338,576	3,134,876	1,693,888	1,553,883

Deferred income tax assets have not been recognised as it is not probable that taxable income will be generated in future periods.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 6: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash balance comprises:				
Cash at bank	83,216	52,874	44,035	12,963
Term deposit	500,000	450,000	500,000	450,000
Other	2	2	–	–
	<u>583,218</u>	<u>502,876</u>	<u>544,035</u>	<u>462,963</u>

NOTE 7: TRADE AND OTHER RECEIVABLES

Current

Trade debtors	–	2,622	–	2,622
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Non-current

Aggregate amounts receivable from related parties:

Wholly-owned group

– Controlled entities	–	–	6,474,246	5,845,532
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Provision for doubtful debt

– Controlled entities	–	–	(6,474,246)	(5,845,532)
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	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
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Movement in provision for doubtful debts:

Balance at beginning of year	–	–	(5,845,532)	(5,095,967)
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Bad and doubtful debts provided
for during the year

	<u>–</u>	<u>–</u>	<u>(628,714)</u>	<u>(749,565)</u>
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Balance at end of year

	<u>–</u>	<u>–</u>	<u>(6,474,246)</u>	<u>(5,845,532)</u>
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(a) Terms and Conditions

Terms and conditions relating to the above financial instruments

- (i) Trade debtors are non-interest bearing and generally on 30 day terms.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
- (iii) Loans receivable from controlled entities are non-interest bearing and payable on demand.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 8: OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Non current				
Shares in controlled entities	–	–	3,909,151	3,909,151
Less: provision for write-down	–	–	(3,909,150)	(3,909,150)
	–	–	1	1

NOTE 9: OTHER ASSETS

Current

Accrued income	8,720	–	8,720	–
GST receivable	42,947	43,526	22,597	15,628
Prepayments	3,148	2,915	2,688	2,915
	54,815	46,441	34,005	18,543

NOTE 10: PLANT AND EQUIPMENT

Plant and equipment at cost	83,573	24,171	14,197	12,855
Less: accumulated depreciation	(15,764)	(10,003)	(8,104)	(5,907)
	67,809	14,168	6,093	6,948

(a) Reconciliations of net carrying amount

Plant and equipment:

Carrying amount at beginning of year	14,168	16,010	6,948	7,871
Additions	60,355	3,888	1,342	2,783
Disposals	(953)	(1,562)	–	(1,562)
Depreciation expense	(5,761)	(4,168)	(2,197)	(2,144)
Carrying value at end of year	67,809	14,168	6,093	6,948

NOTE 11: TRADE AND OTHER PAYABLES

Current

Trade creditors	97,862	313,851	63,406	82,065
Accrued expenses	215,582	210,721	195,822	187,238
	313,444	524,572	259,228	269,303

Trade creditors and accruals include the following amounts with related parties:

Directors and director related entities	247,427	399,281	235,206	219,082
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(a) Terms and Conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 12: INTEREST-BEARING LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Convertible notes – unsecured	400,000	610,000	400,000	610,000
Non current				
Convertible notes – unsecured	410,000	–	410,000	–

(a) Terms and conditions

Convertible notes issued:

Issue Date	Amount	Interest Rate	Convertible On or Before
1 April 2004	200,000	12% per annum	15 June 2009 (i)
31 March 2008	200,000	12% per annum	30 April 2009
1 June 2008	410,000	12% per annum	1 June 2010
	<u>810,000</u>		

The notes are convertible into shares at any time on or before the conversion date at the option of either the Company or the lender.

The notes issued in April 2004 are convertible to shares and options at the option of the holder at the lower of \$0.02 or 80% of the average weighted price of the shares traded on ASX during the five business days before the date on which the notice of conversion is received by the Company.

The notes issued in March 2008 and June 2008 are convertible to shares and options at the option of the holder at the lower of \$0.005 or 80% of the average weighted price of the shares traded on ASX during the five business days before the date on which the notice of conversion is received by the Company.

If the lender has not been repaid and has not converted 30 days prior to the end of the term of the notice, the Company, by issuing a notice to the holder, may convert the notes to shares and options as per the conversion terms and conditions.

If the lender has not converted by the end of the term of the note, the Company must repay the lender.

- (i) The convertible notes issued on 1 April 2004 were not converted on 15 June 2008, as they were extended for a further 12 months.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 13: OTHER LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current				
Loans – unsecured	12,221	1,178	–	–

NOTE 14: CONTRIBUTED EQUITY

Issued and paid up capital:

313,319,580 ordinary shares fully paid
(2007: 295,319,573)

	20,590,888	19,624,371	20,590,888	19,624,371
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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.

Each ordinary share entitles its holder to one vote, either in person or by proxy, at a meeting of the Company.

Movement in ordinary share capital of the Company during the year was as follows:

Date	Details	Number of Shares	Issue Price	\$
01/07/07	Opening balance	295,319,573	–	19,624,371
28/09/07	Working capital	43,999,997	\$0.015	660,000
24/12/07	Share purchase plan	4,000,010	\$0.015	60,000
31/03/08	Working capital	50,000,000	\$0.006	300,000
	Less: transaction costs arising on share issues	–		(53,483)
30/06/08	Closing balance	393,319,580		20,590,888

Capital Risk Management

Management controls the capital of the Company in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Company can fund its operations and continue as a going concern.

The Company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 14: CONTRIBUTED EQUITY (continued)

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year. The gearing ratios for the year ended 30 June 2008 and 30 June 2007 are as follows:

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Total borrowings	822,221	611,178	810,000	610,000
Less cash and cash equivalents	(583,218)	(502,876)	(544,035)	(462,963)
Net debt	239,003	108,302	265,965	147,037
Total equity/ (deficiency)	(429,823)	(569,643)	(485,094)	(388,226)
Total capital	(190,820)	(461,341)	(219,129)	(241,189)
Gearing ratio	(125)%	(23)%	(121)%	(61)%

NOTE 15: RESERVES

(a) Composition

(i) Share based payment reserve	699,726	609,676	699,726	609,676
(ii) Foreign currency translation reserve	(2,826)	1,237	–	–
	696,900	610,913	699,726	609,676

(i) The share based payments reserve records items recognised as expenses on valuation of director and consultant share options.

(ii) The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 15: RESERVES (continued)

(b) Movement in options of the Company during the year was as follows:

Date	Details	Number of Options	Issue Price	\$
01/07/07	Opening balance	246,736,527	–	609,676
07/12/07	Working capital (a)	43,999,997	\$0.05	–
07/12/07	Remuneration options (b)	4,000,000	\$0.015	49,600
07/12/07	Remuneration options (b)	4,000,000	\$0.025	47,600
30/06/08	Options expired	(13,900,000)	\$0.10	–
	Less: transaction costs arising on option issues	–		(7,150)
30/06/08	Closing balance	284,836,524		699,726

(a) Free attaching options for funds raised

(b) Pursuant to resolution of members

NOTE 16: CONTINGENT LIABILITIES

Pharmanet Group Limited and its controlled entities have no known material contingent liabilities at the end of the financial year.

NOTE 17: CAPITAL AND LEASE COMMITMENTS

(a) Capital Expenditure commitments

There were no capital expenditure commitments as at 30 June 2008.

(b) Finance lease and hire purchase commitments

There were no finance lease and hire purchase commitments as at 30 June 2008.

(c) Operating lease commitments

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Total non-cancellable lease expenditure contracted for at balance date but not provided in the financial statement, payable:				
Payable – Minimum lease commitment				
Not later than 12 months	18,300	–	18,300	–
Between 12 months and 5 years	73,200	–	73,200	–
	91,500	–	91,500	–

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 18: SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

NOTE 19: SEGMENT INFORMATION

The Consolidated Entity principally operates in the biotechnology and pharmaceutical industry in Australia.

a) Business Segments

	Investments		Pharmaceutical Manufacturing		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Operating revenue						
Sales to customers						
outside the consolidated entity	–	–	–	–	–	–
Other revenue	45,835	117,072	232,566	–	278,401	117,072
Total revenue	45,835	117,072	232,566	–	278,401	117,072
Segment result	(527,570)	(398,587)	(397,625)	(759,376)	(925,195)	(1,157,963)
Consolidated entity operating loss					(925,195)	(1,157,963)
Segment assets	584,134	491,077	121,708	75,030	705,842	566,107
Segment liabilities	1,069,228	879,303	66,437	256,447	1,135,665	1,135,750
Other segment information						
Depreciation	2,197	2,144	3,564	2,024	5,761	4,168
Other non cash items other than depreciation and amortisation	103,206	(32,445)	–	–	103,206	(32,445)

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 19: SEGMENT INFORMATION (continued)

(b) Geographical Segments

	Australia		USA		Consolidated	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Operating revenue						
Other revenue	45,835	117,072	232,566	–	278,401	117,072
Total revenue	45,835	117,072	232,566	–	278,401	117,072
Segment result	(979,302)	(550,333)	54,107	(607,630)	(925,195)	(1,157,963)
Consolidated entity operating loss					(925,195)	(1,157,963)
Segment assets	669,883	510,187	35,959	55,920	705,842	566,107

NOTE 20: KEY MANAGEMENT PERSONNEL

Directors

The following persons were directors of Pharmanet Group Limited during the financial year:

Chairman – Executive

J Palermo

Non-executive directors

S M O Watson

C J Quirk

There are no other key management personnel in positions of control or exercising management authority.

(a) Options and Rights Holdings by Directors (2008)

Director	Balance 01/07/07 (No. Options)	Granted as Remuneration (No. Options)	No. of Options Exercised	Net Change Other (No. Options)	Balance 30/06/08 (No. Options)	Total Vested 30/06/08 (No. Options)	Total Exercisable (No. Options)
J Palermo	18,000,000	4,000,000	–	–	22,000,000	22,000,000	22,000,000
S M O Watson	21,027,311	2,000,000	–	–	23,027,311	23,027,311	23,027,311
C J Quirk	9,677,778	2,000,000	–	(1,777,778)	9,900,000	9,900,000	9,900,000
Total	48,705,089	8,000,000	–	(1,777,778)	54,927,311	54,927,311	54,927,311

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 20: KEY MANAGEMENT PERSONNEL (continued)

Options and Rights Holdings by Directors (2007)

	Balance 01/07/06 (No. Options)	Granted as Remuneration (No. Options)	No. of Options Exercised	Net Change Other (No. Options)	Balance 30/06/07 (No. Options)	Total Vested 30/06/07 (No. Options)	Total Exercisable (No. Options)
Director							
J Palermo	12,000,000	6,000,000	–	–	18,000,000	18,000,000	18,000,000
S M O Watson	15,027,311	6,000,000	–	–	21,027,311	21,027,311	21,027,311
C J Quirk	900,000	6,000,000	(2,777,778)	5,555,556	9,677,778	9,677,778	9,677,778
Total	27,927,311	18,000,000	(2,777,778)	5,555,556	48,705,089	48,705,089	48,705,089

(b) Share Holdings by Directors (2008)

	Opening Balance (No. of Shares)	Received Remuneration (No. of Shares)	No. of Options Exercised	Net Other Change (No. of Shares)	Closing Balance (No. of Shares)
Parent Entity Director					
J Palermo	1,371,875	–	–	–	1,371,875
S M O Watson	12,502,769	–	–	–	12,502,769
C J Quirk	3,577,778	–	–	(3,577,778)	–
Total Directors	17,452,422	–	–	(3,577,778)	13,874,644

Share Holdings by Directors (2007)

	Opening Balance (No. of Shares)	Received Remuneration (No. of Shares)	No. of Options Exercised	Net Other Change (No. of Shares)	Closing Balance (No. of Shares)
Parent Entity Director					
J Palermo	1,371,875	–	–	–	1,371,875
S M O Watson	12,502,769	–	–	–	12,502,769
C J Quirk	800,000	–	–	2,777,778	3,577,778
Total Directors	14,674,644	–	–	2,777,778	17,452,422

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 20: KEY MANAGEMENT PERSONNEL (continued)

(c) Transactions with key management personnel

John Palermo, Simon Watson, Christopher Quirk and their related entities provide consulting services to the consolidated group as required, as detailed in Note 24.

NOTE 21: REMUNERATION OF AUDITORS

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Amounts received or due and receivable by the auditors of the Parent Entity for:				
Audit and review services				
– RSM Bird Cameron Partners	32,500	–	32,500	–
– Other auditors	38,852	131,640	(7,228)	26,975
Other services				
– Other auditors	3,925	2,700	3,925	2,700
	<u>75,277</u>	<u>134,340</u>	<u>29,197</u>	<u>29,675</u>

NOTE 22: EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

Employee Share Incentive Scheme

An employee share scheme has been established where directors, executives and certain members of staff of the consolidated entity are issued with options over the ordinary shares of Pharmanet Group Limited.

Superannuation Commitments

Employees and the employer contribute to complying accumulation funds at varying percentages of salaries and wages. The consolidated entity's contributions are not legally enforceable other than those payable in terms of ratified award obligations required by the Occupational Superannuation Act. The assets of the funds are sufficient to satisfy all benefits that would have vested under the plan in the event of termination of the plans and voluntary or compulsory termination of each employee.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 23: CONTROLLED ENTITIES

	Country of Incorp	Class of Units/Shares Held	% Held by Parent Entity		Book Value of Shares Held by Parent Entity	
			2008	2007	2008	2007
			%	%	\$	\$
Pharmanet Group Ltd	AUS	N/A	N/A	N/A	N/A	N/A
Thermalife International Pharmaceuticals Pty Ltd	AUS	Ord Shares	100%	100%	–	–
Peptophen Research and Development Pty Ltd	AUS	Ord Shares	100%	100%	–	–
Pandaland Holdings Ltd	AUS	Ord Shares	100%	100%	–	–
Pharmaceutical Products Group Pty Ltd	AUS	Ord Shares	100%	100%	–	–
Cambridge Scientific Pty Ltd	AUS	Ord Shares	100%	100%	–	–
Veterinary Technologies Limited	AUS	Ord Shares	100%	100%	1	1
Molecular Pharmacology (USA) Limited	USA	Ord Shares	80%	80%	–	–
					1	1

NOTE 24: RELATED PARTY TRANSACTIONS

The directors of Pharmanet Group Limited during the financial year were:

John Palermo
Simon Maxwell Ormsby Watson
Christopher John Quirk

Either individually or through companies under their control or through companies under the control of a director-related entity, Mr J Palermo, Dr C J Quirk and Mr S M O Watson received payment for the provision of consultancy, secretarial, legal, rent and administrative services under normal commercial terms and conditions.

Related parties of Mr J Palermo, being JP Corporate Pty Ltd, PAJ Investments Pty Ltd for company secretarial, corporate advisory and premises lease respectively, Dr C J Quirk for financial consultancy services and Mr S M O Watson for the provision of legal services.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 24: RELATED PARTY TRANSACTIONS (continued)

The aggregate amount of payments for the above mentioned services provided in the ordinary course of business were as follows:

	2008	2007
	\$	\$
Consultancy, administration and secretarial	241,893	197,783
Legal	217	20,354
Rent and outgoings	26,457	22,962
	<u>268,567</u>	<u>241,099</u>

The above payments have not been included as part of directors' remuneration.

NOTE 25: RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and short-term deposits and convertible notes.

The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as other receivables and trade payables, which arise directly from its operations. It is, and has been throughout the entire period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is cash flow interest rate risk. Other minor risks are either summarised below or disclosed at Note 14 in the case of capital risk management. The Board reviews and agrees policies for managing each of these risks.

Cash Flow Interest Rate Risk

The Company's exposure to the risks of changes in market interest rates relates primarily to the Company's short-term deposits with a floating interest rate. These financial assets with variable rates expose the Company to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Company does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the Company's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

The Company has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the Company does not have a formal policy in place to mitigate such risks.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 25: RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Consolidated

	Weighted Average Effective Interest Rate %		Non Interest Bearing		Fixed Interest Rate		Floating Interest Rate		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
			\$		\$		\$			
Financial assets										
– Cash	7.68	6.30	–	–	–	–	583,218	502,876	583,218	502,876
– Trade debtors			–	2,622	–	–	–	–	–	2,622
– GST receivable			42,947	43,526	–	–	–	–	42,947	43,526
– Prepayments			3,148	2,915	–	–	–	–	3,148	2,915
– Accrued income			8,720	–	–	–	–	–	8,720	–
Total financial assets			54,815	49,063	–	–	583,218	502,876	638,033	551,939
Financial liabilities										
– Convertible notes	12.00	12.00	–	–	810,000	610,000	–	–	810,000	610,000
– Creditors and accruals			313,444	524,572	–	–	–	–	313,444	524,572
Total financial liabilities			313,444	524,572	810,000	610,000	–	–	1,123,444	1,134,572
Net financial assets/(liabilities)			(258,629)	(475,509)	(810,000)	(610,000)	583,218	502,876	(485,411)	(582,633)

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 25: RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Parent Entity	Weighted Average Effective Interest Rate %		Non Interest Bearing		Fixed Interest Rate		Floating Interest Rate		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
			\$		\$		\$			
Financial assets										
– Cash	7.68	6.30	–	–	–	–	544,035	462,963	544,035	462,963
– Trade debtors			–	2,622	–	–	–	–	–	2,622
– GST receivable			22,597	15,628	–	–	–	–	22,597	15,628
– Prepayments			2,688	2,915	–	–	–	–	2,688	2,915
– Accrued income			8,720	–	–	–	–	–	8,720	–
Total financial assets			34,005	21,165	–	–	544,035	462,963	578,040	484,128
Financial liabilities										
– Convertible notes	12.00	12.00	–	–	810,000	610,000	–	–	810,000	610,000
– Creditors and accruals			259,228	269,303	–	–	–	–	259,228	269,303
Total financial liabilities			259,228	269,303	810,000	610,000	–	–	1,069,228	879,303
Net financial assets/(liabilities)			(225,223)	(248,138)	(810,000)	(610,000)	544,035	462,963	(491,188)	(395,175)

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 25: RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest Rate Sensitivity

Consolidated

At 30 June 2008, if interest rates had changed by 10% during the entire year with all other variables held constant, profit for the year and equity would have been \$4,479 lower/higher, mainly as a result of lower/higher interest income from cash and cash equivalents.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% increase sensitivity would move short term interest rates at 30 June 2008 from 7.68% to 8.45% (10% decrease : 6.91%) representing a 77 basis points shift. This would represent two to three increases which is reasonably possible in the current environment with the bias coming from the Reserve Bank of Australia and confirmed by market expectations that interest rates in Australia are more likely to move up than down in the coming period.

Based on the sensitivity analysis, only interest revenue from variable rate deposits and cash balances are impacted resulting in a decrease or increase in overall income.

Parent

At 30 June 2008, if interest rates had changed by 10% during the entire year with all other variables held constant, profit for the year and equity would have been \$4,178 lower/higher, mainly as a result of lower/higher interest income from cash and cash equivalents.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% increase sensitivity would move short term interest rates at 30 June 2008 from 7.68% to 8.45% (10% decrease : 6.91%) representing a 77 basis points shift. This would represent two to three increases which is reasonably possible in the current environment with the bias coming from the Reserve Bank of Australia and confirmed by market expectations that interest rates in Australia are more likely to move up than down in the coming period.

Based on the sensitivity analysis, only interest revenue from variable rate deposits and cash balances are impacted resulting in a decrease or increase in overall income.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, to recognise financial assets is the carrying amount net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The parent and consolidated entity do not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 25: RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash reserves and marketable securities and through the continuous monitoring of budgeted and actual cash flows.

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Contracted maturities of liabilities at 30 June				
Payables				
– less than 30 days	313,444	524,572	259,228	269,303
Convertible notes				
– less than 6 months	–	410,000	–	410,000
– between 6 and 12 months	400,000	200,000	400,000	200,000
– greater than 12 months	410,000	–	410,000	–
	<u>1,123,444</u>	<u>1,134,572</u>	<u>1,069,228</u>	<u>879,303</u>

Foreign Exchange Risk

The consolidated entity is exposed to foreign exchange rate arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency. The risk is measured using sensitivity analysis.

The consolidated entity's exposure to foreign currency risk at the reporting date was as follows:

	2008	2007
	USD	USD
	\$	\$
Total Assets	34,575	47,465
Total Liabilities	1,452,090	1,351,926

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 25: RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign Currency Risk Sensitivity Analysis

At 30 June, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the foreign currencies, with all other variables remaining constant is as follows:

	2008	2007
	Change in equity with a +/- 10% in AUD to USD	Change in equity with a +/- 10% in AUD to USD
	\$	\$
Total Assets	3,269	5,084
Total Liabilities	137,294	144,795

The Company is not exposed to foreign exchange risk as all transactions of the Company are in Australian dollars.

Reconciliation of Net Financial Assets to Net Assets

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net financial assets/ (liabilities)	(485,411)	(582,633)	(491,188)	(395,175)
Other financial assets	-	-	1	1
Plant and equipment	67,809	14,168	6,093	6,948
Other liabilities	(12,221)	(1,178)	-	-
Net assets/(liabilities)	(429,823)	(569,643)	(485,094)	(388,226)

Net Fair Values

For assets and other liabilities, the net fair value approximates their carrying value. The parent and consolidated entity have no financial assets or liabilities that are readily traded on organised markets at balance date and has no financial assets where the carrying amount exceeds net fair values at balance date.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial statements.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 26: EARNINGS PER SHARE

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

	CONSOLIDATED	
	2008	2007
	\$	\$
Net loss	(925,195)	(1,157,963)
Earnings used in calculating basic earnings per share	(925,195)	(1,157,963)
	Number of	Number of
	Shares	Shares
Weighted average number of ordinary shares used in calculating based earnings per share:	342,997,172	266,704,656
Basic loss per share	(0.003)	(0.004)

Diluted loss per share is not disclosed as the conversion to ordinary shares does not lead to an inferior view of the earnings performance of the entity.

NOTE 27: SHARE BASED PAYMENTS

The following share based payments arrangements existed as at 30 June 2008.

The following options were granted to various directors, employees and consultants of the consolidated entity:

J Palermo

- 2,000,000 unlisted options exercisable at \$0.015 on or before 31 December 2011; and
- 2,000,000 unlisted options exercisable at \$0.025 on or before 31 December 2011.

S M O Watson

- 1,000,000 unlisted options exercisable at \$0.015 on or before 31 December 2011; and
- 1,000,000 unlisted options exercisable at \$0.025 on or before 31 December 2011.

C J Quirk

- 1,000,000 unlisted options exercisable at \$0.015 on or before 31 December 2011; and
- 1,000,000 unlisted options exercisable at \$0.025 on or before 31 December 2011.

Fair value of options granted

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

Notes to the Financial Statements for the Year Ended 30 June 2008 (continued)

NOTE 27: SHARE BASED PAYMENTS (continued)

The model inputs for options granted during the year ended 30 June 2008 included:

- (a) options are granted for no consideration (2007: Nil)
- (b) exercise price: \$0.015 and \$0.025 (2007: \$0.05, \$0.10 and \$0.15)
- (c) grant date: 30 November 2007 (2007: 21 December 2006)
- (d) expiry date: 31 December 2011 (2007: 31 December 2010)
- (e) share price at grant date: \$0.014 (2007: \$0.021)
- (f) expected price volatility of the Company's shares: 150% (2007: 50%)
- (g) risk-free interest rate: 6.5% (2007: 5.93%)

The shared-based payment expense for the year was \$97,200 (2007: \$28,980).

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price 2008	Number of Options 2008	Weighted average exercise price 2007	Number of Options 2007
Outstanding at 1 July	\$0.10	246,736,527	\$0.10	153,514,304
Expired during the year	\$0.10	(13,900,000)	\$0.05	(146,614,304)
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Granted during the year	\$0.03	51,999,997	\$0.10	239,836,527
Outstanding at 30 June	\$0.07	284,836,524	\$0.10	246,736,527
Vested and exercisable at 30 June	\$0.07	284,836,524	\$0.10	246,736,527

The options outstanding at 30 June 2008 have an exercise price in the range of \$0.015 to \$0.15 and a weighted average remaining contractual life of 2.5 years.

ASX Additional Information

I. QUOTED SECURITIES

(a) ORDINARY FULLY PAID SHARES

(i) DISTRIBUTION OF SHAREHOLDERS AS AT 9 SEPTEMBER 2008:

SPREAD OF HOLDINGS	NO. OF HOLDERS	NO. OF SHARES	PERCENTAGE OF ISSUED CAPITAL %
1 – 1,000	127	63,286	0.02
1,001 – 5,000	254	814,084	0.21
5,001 – 10,000	161	1,347,374	0.34
10,001 – 100,000	469	22,863,486	5.81
100,001 +	372	368,231,350	93.62
	1,383	393,319,580	100.00

The number of shareholdings held in less than marketable parcels is 929.

(ii) TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES:

The names of the twenty largest shareholders of ordinary fully paid shares are listed below:

NAME	NO. OF ORDINARY SHARES HELD	PERCENTAGE OF ISSUED SHARES %
1. Monarch Corporation Pty Ltd	32,038,889	8.15
2. Primelane Pty Ltd	24,166,667	6.14
3. Intercorp Pty Ltd	13,651,545	3.47
4. Steven Jin Hooi Ong	11,500,000	2.92
5. Monarch Corporation Pty Ltd	9,160,358	2.33
6. Impact Nominees Pty Ltd	8,333,333	2.12
7. Kings Park Nominees Pty Ltd	7,216,708	1.83
8. Westdale Asset Pty Ltd	6,000,000	1.53
9. Cityscan Pty Ltd	5,583,333	1.42
10. Bradshaw Muir & Assoc Pty Ltd	5,500,000	1.40
11. Manhattan Inv Inc	5,000,000	1.27
12. Mark Anthony Wells	4,968,780	1.26
13. Vagabond Holdings Pty Ltd	4,500,007	1.14
14. Kings Park Nominees Pty Ltd	4,286,061	1.09
15. Arco Four Inv Pty Ltd	4,000,000	1.02
16. James Wallace Hope	4,000,000	1.02
17. Alfonsina Mandosio	4,000,000	1.02
18. Huidi Qi	4,000,000	1.02
19. Yu Lin & Umberto Capraro	3,982,000	1.01
20. Yinghui Liu	3,937,870	1.00
	165,825,551	42.16

ASX Additional Information (continued)

1. QUOTED SECURITIES (continued)

(a) ORDINARY FULLY PAID SHARES (continued)

(iii) VOTING RIGHTS

No restrictions – on a show of hands every member present in person or by proxy shall have one vote and upon a poll, each fully paid share shall have one vote.

(iv) SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders as recorded in the Register of Members as at 9 September 2008:

Name	Ordinary Shares	
	No.	%
Monarch Corporation Pty Ltd	41,199,247	10.48
Primelane Pty Ltd	24,166,667	6.14

(b) OPTIONS EXERCISABLE AT \$0.05 ON OR BEFORE 31 DECEMBER 2008

(i) DISTRIBUTION OF OPTIONHOLDERS AS AT 9 SEPTEMBER 2008:

SPREAD OF HOLDINGS	NO. OF HOLDERS	NO. OF SHARES	PERCENTAGE OF ISSUED CAPITAL %
1 – 1,000	7	4,446	0.00
1,001 – 5,000	5	13,974	0.00
5,001 – 10,000	3	22,500	0.01
10,001 – 100,000	42	2,534,741	1.07
100,001 +	121	235,260,863	98.92
	178	237,836,524	100.00

ASX Additional Information (continued)

1. QUOTED SECURITIES (continued)

(b) OPTIONS EXERCISABLE AT \$0.05 ON OR BEFORE 31 DECEMBER 2008 (continued)

(ii) TOP 20 HOLDERS OF OPTIONS EXERCISABLE AT \$0.05 ON OR BEFORE 31 DECEMBER 2008:

The names of the twenty largest holders of options exercisable at \$0.05 on or before 31 December 2008 are listed below:

	NO. OF OPTIONS HELD	PERCENTAGE OF ISSUED SHARES %
1. Monarch Corporation Pty Ltd	30,038,889	12.63
2. Primelane Pty Ltd	15,333,333	6.45
3. Monarch Corporation Pty Ltd	10,318,571	4.34
4. Fortis Clearing Nom Pty Ltd	10,000,000	4.20
5. Yu Lin & Umberto Capraro	10,000,000	4.20
6. Steve Jin Hooi Ong	8,331,000	3.50
7. Kings Park Nominees Pty Ltd	7,988,561	3.36
8. Westdale Asset Pty Ltd	7,900,000	3.32
9. Capraro Pty Ltd	7,000,000	2.94
10. Jacqueline De Vetten	6,654,360	2.80
11. Classic Roofing Pty Ltd	6,500,000	2.73
12. Vincenzo & Rita Brizzi	5,751,654	2.42
13. Ozway Intl Pty Ltd	4,500,000	1.89
14. Vagabond Holdings Pty Ltd	3,750,000	1.58
15. Daniel McDonagh	3,720,000	1.56
16. Anthony John Baxter	3,584,211	1.51
17. JEB Holdings Pty Ltd	3,194,444	1.34
18. James Kelsey Nugent	3,034,999	1.28
19. Dolphin Technology Pty Ltd	3,000,000	1.26
20. Dolphin Technology Pty Ltd	3,000,000	1.26
	153,600,022	64.57

(iii) VOTING RIGHTS

Holders of options are not entitled to vote at a General Meeting of Members in person, by proxy or upon a poll, in respect of their option holding only.

ASX Additional Information (continued)

2. UNQUOTED SECURITIES

(a) OPTIONS

As at 9 September 2008 there existed the following unquoted options:

(i) 1,500,000 OPTIONS EXERCISABLE AT \$0.05 EACH BEFORE 31 DECEMBER 2008

Name	Options	%
Mr Andrew Barker	500,000	33.33
JEB Holdings Pty Ltd	1,000,000	66.67
	<u>1,500,000</u>	<u>100.00</u>

(ii) 12,000,000 OPTIONS EXERCISABLE AT \$0.05 EACH BEFORE 31 DECEMBER 2010

Name	Options	%
Dolphin Technology Pty Ltd <The Dolphin A/c>	4,000,000	33.33
Vison Pty Ltd	2,000,000	16.67
Kings Park Nominees Pty Ltd <The Watson Super Fund A/c>	4,000,000	33.33
Hamelin Nominees Pty Ltd	2,000,000	16.67
	<u>12,000,000</u>	<u>100.00</u>

(iii) 13,500,000 OPTIONS EXERCISABLE AT \$0.10 EACH BEFORE 31 DECEMBER 2010

Name	Options	%
Dolphin Technology Pty Ltd <The Dolphin A/c>	4,000,000	29.63
Vison Pty Ltd	2,000,000	14.81
Kings Park Nominees Pty Ltd <The Watson Super Fund A/c>	4,000,000	29.63
Mr Andrew Barker	500,000	3.71
Hamelin Nominees Pty Ltd	2,000,000	14.81
JEB Holdings Pty Ltd	1,000,000	7.41
	<u>13,500,000</u>	<u>100.00</u>

ASX Additional Information (continued)

2. UNQUOTED SECURITIES (continued)

(a) OPTIONS (continued)

(iv) 12,000,000 OPTIONS EXERCISABLE AT \$0.15 EACH BEFORE 31 DECEMBER 2010

Name	Options	%
Dolphin Technology Pty Ltd <The Dolphin A/c>	4,000,000	33.33
Vison Pty Ltd	2,000,000	16.67
Kings Park Nominees Pty Ltd <The Watson Super Fund A/c>	4,000,000	33.33
Hamelin Nominees Pty Ltd	2,000,000	16.67
	<u>12,000,000</u>	<u>100.00</u>

(v) 4,000,000 OPTIONS EXERCISABLE AT \$0.015 EACH BEFORE 31 DECEMBER 2011

Name	Options	%
Dolphin Technology Pty Ltd <The Dolphin A/c>	2,000,000	50.00
Kings Park Nominees Pty Ltd <The Watson Super Fund A/c>	1,000,000	25.00
Hamelin Nominees Pty Ltd	1,000,000	25.00
	<u>4,000,000</u>	<u>100.00</u>

(vi) 4,000,000 OPTIONS EXERCISABLE AT \$0.025 EACH BEFORE 31 DECEMBER 2011

Name	Options	%
Dolphin Technology Pty Ltd <The Dolphin A/c>	2,000,000	50.00
Kings Park Nominees Pty Ltd <The Watson Super Fund A/c>	1,000,000	25.00
Hamelin Nominees Pty Ltd	1,000,000	25.00
	<u>4,000,000</u>	<u>100.00</u>

(vii) VOTING RIGHTS

Holders of options are not entitled to vote at a General Meeting of Members in person, by proxy or upon a poll, in respect of their option holding.

3. DIRECTORS' INTERESTS

Interests of each director in the share capital of the Company at 30 June 2008 are detailed in the Directors' Report.

Corporate Governance Statement

The ASX Corporate Governance Council requires that the Company must disclose the extent to which it has followed best practice recommendations, identify which recommendations have not been followed and the reason for not adopting the recommendations.

The ASX Corporate Governance Council recognises that not all recommendations are appropriate for all companies and that companies should only adopt those recommendations that are suitable in each individual case.

The following is a summary of policies adopted by the Company and where appropriate, explanations of where best practice recommendations have not been applied. The various policies and procedures were followed throughout the entire financial year.

BOARD COMPOSITION AND FUNCTIONS

Under the Company's Constitution, the Board is required to consist of at least 3 and no more than 10 directors. If the Company has 3 or more directors, one third of the directors, with the exception of the Managing Director, must retire and seek re-election at the Annual General Meeting each year.

The Board of the Company currently consists of 1 executive and 2 non-executive directors.

The Board composition does not follow ASX recommendations, in that a majority of directors are not independent. The Board is considered to be comprised of directors with the experience and qualifications best suited to the Company's size and range of activities.

The Company has followed ASX recommendations in the assessment of whether a director is considered to be "independent". The other non-executive directors are Simon Watson and Christopher Quirk.

The Board delegates responsibilities to committees, executive directors and senior management.

The Board is responsible for corporate strategy, implementation of business plans, allocation of resources, approval of budgets and capital expenditure, and the adherence to Company policies.

The Board is also responsible for compliance with the Code of Conduct, overseeing risk management and internal controls, and the assessment, appointment and removal of the Managing Director, Company Secretary and other senior management.

Directors of the Company during the financial year and information pertaining to individual directors is included in the Directors' Report.

Board members have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expense.

Corporate Governance Statement (continued)

DIRECTOR INDEPENDENCE

The Company has established guidelines for testing the independence of directors.

A director is considered to be independent if they satisfy certain criteria, the most significant being as follows:

- The director must be in a non-executive role where any fees payable by the Company could not be considered to make the director reliant on such remuneration. The director must have no other material contractual relationship with the Company other than as a director of the Company;
- The director is not a substantial shareholder of the Company;
- The director has not been employed in an executive capacity by the Company and has not been a principal of a material adviser or consultant to the Company within the last 3 years; and
- The director is free from any interest which could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company.

RISK MANAGEMENT

The Board is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

- Ensure compliance in legal, statutory and ethical matters;
- Monitor the business environment;
- Identify business risk areas;
- Identify business opportunities; and
- Monitor systems established to ensure prompt and appropriate responses to shareholder complaints and enquiries.

The Board meets on a regular basis. The Company does not follow the ASX best practice recommendation that the Company should have an internal control function. The Board considers that the Company is not of a size or operational complexity to warrant the implementation of a separate internal control function.

The Company Secretary is required to state in writing to the Board that the Company has a sound system of risk management, that internal compliance and control systems are in place to ensure the implementation of Board policies, and that those systems are operating efficiently and effectively in all material respects.

Corporate Governance Statement (continued)

AUDIT COMMITTEE

The Company believes it is not of a size to justify having an Audit Committee. All directors are involved in overseeing the existence and maintenance of internal controls, accounting systems and external audit arrangements.

PROCEDURE FOR THE SELECTION OF NEW DIRECTORS

The Company believes it is not of a size to justify having a Nomination Committee. If any vacancies arise on the Board, all directors are involved in the search and recruitment of a replacement.

Corporate performance is enhanced when the Board has an appropriate mix of skills and experience. The Board is evaluated before a candidate is selected to join the Board. Candidates are nominated by existing Board members and independent search consultants are also utilised if necessary. Where a director nominates a candidate for the Board, the director must disclose any pre-existing relationship with the nominee.

New directors are provided with a letter of appointment setting out their responsibilities and rights, and are provided with a copy of the Company's Constitution.

REMUNERATION OF BOARD MEMBERS

The Company has established a Remuneration Committee comprising the full Board to oversee the remuneration of senior executives and executive directors. According to the Company's Constitution, the Remuneration Committee must consist of at least 2 non-executive directors. At the date of this report, the committee members were John Palermo, Simon Watson and Christopher Quirk. The Company believes it is not of a size to justify following the ASX recommendations.

The Committee reviews executive directors' and senior management's remuneration and other terms of employment annually, having regard to performance, relative industry remuneration levels, and where appropriate, the Committee seeks independent advice to ensure appropriate remuneration levels are in place.

The remuneration of non-executive directors is determined by the Board within the maximum amount approved by shareholders in general meeting. Non-executive directors are not entitled to retirement benefits other than statutory superannuation or other statutory required benefits.

Corporate Governance Statement (continued)

Non-executive directors may provide consulting services to the Company, which are over and above the service normally provided by a non-executive director in the performance of their duty as a member of the Board. Where the Company requests that specific projects are investigated by a non-executive director that fall outside their normal duties as a director, additional services may be charged to the Company, at normal commercial rates.

Performance evaluations for Board members are held annually and are undertaken with a view to comparing the performance of individual directors to the performance and growth of companies of similar size and complexity within the mining industry.

No director may be involved in setting their own remuneration or terms and conditions.

CONFLICTS OF INTEREST

The Board has put in place Code of Conduct and Share Trading Policies which have been designed to ensure that all directors and employees of the Company act ethically and do not use confidential information for personal gain.

CODE OF CONDUCT

The Board is responsible for setting the tone of legal, ethical and moral conduct to ensure that the Company is considered reputable by the industry and other outside entities. This involves considering the impact of the Company's decisions on the industry, colleagues and the general community. The Code of Conduct adopted by the Company requires that all employees abide by the laws, regulations and business practices whenever the Company operates.

The Board maintains an approach that preserves the integrity of any laws or regulations under which the Company operates. The Company has also put in place various internal Policies which provide internal controls to ensure employees only act within the authority given to them by the Board. This is to ensure that the Board has responsibility for any material transactions and dealings with outside parties, and that any legal, environment and social consequences of such dealings will be properly considered before any action is taken.

Corporate Governance Statement (continued)

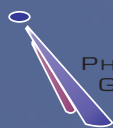
DISCLOSURE OF INFORMATION TO ASX AND INVESTORS

The Company has established policies and procedures relating to the disclosure of information to interested parties.

Policy	Adopted
• Code of Conduct	28 June 2004
• Director Independence	28 June 2004
• Legal, Environmental & Social Responsibilities	28 June 2004
• Remuneration Policy	28 June 2004
• Risk Management & Internal Control Procedures	28 June 2004
• Audit Committee	28 June 2004
• Board and Management Responsibilities	28 June 2004
• Compliance with ASX Disclosure Requirements	28 June 2004
• Nomination of Directors	28 June 2004
• Directors' and Officers' Trading in Securities	28 June 2004
• Communication with Shareholders	28 June 2004
• Investor Relations and Media Interaction	28 June 2004

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