



**PHARMANET GROUP LIMITED**

(ABN 98 006 640 553)

**2010 ANNUAL REPORT**

## Corporate Directory

**AUSTRALIAN COMPANY NUMBER:**

006 640 553

**DIRECTORS:**

John Palermo (Chairman)

Christopher John Quirk

John James Found

**HOME EXCHANGE:**

Australian Securities Exchange Limited

2 The Esplanade

PERTH, WESTERN AUSTRALIA 6000

**ASX CODE:**

PNO

**SECRETARY:**

John Palermo

Level 1

284 Oxford Street

LEEDERVILLE, WESTERN AUSTRALIA 6007

**REGISTERED OFFICE:**

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**SHARE REGISTER:**

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**AUDITORS:**

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## Chairman's Report

On behalf of the Board, I have pleasure in presenting the Company's financial results and Annual Report for the year ended 30 June 2010.

During the reporting period, the Company was wholly engaged in resolving QC and QA issues in preparation for the Australian launch of the ThermaLIFE® Cream to the market. Pharmanet, through its wholly-owned subsidiary Thermalife International Pharmaceuticals Pty Ltd, intends to sell the product as an Over-the-Counter (OTC) product in Australia before seeking additional and expanded international markets.

The full scale production of ThermaLIFE® Cream commenced in February and following regulatory approvals was subjected to stringent QA and QC processes to enable the issue of the certification from the manufacturer for the release of the product to the market. This was achieved subsequent to year end as disclosed in Note 15 of this annual report.

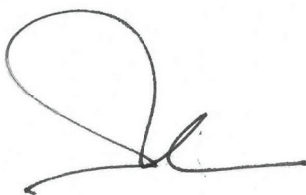
The Company is currently negotiating distribution arrangements with a view to distributing the product through the pharmacy networks in Australia.

The intellectual property portfolio is under constant review and a number of the applications are in final stages of examination in a variety of jurisdictions.

The year ahead will be one of change for the Company as it anticipates receiving revenue following the launch of the product anticipated prior to the Annual General Meeting of Members.

I would like to express my acknowledgement for the assistance given by Dr Chris Quirk and Mr John Found as co-directors during the course of the year and in particular I acknowledge Dr Carol Worth who was fully engaged and was the driving force in having the product completed for marketing in the Australian market.

Dated at Perth this 28<sup>th</sup> day of September, 2010



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**JOHN PALERMO**

*Chairman*

## Review of Operations

The financial year has seen the Company complete its first full scale commercial production batches of ThermaLIFE™ Cream at a GMP facility with approved product warehoused ready for market release. ThermaLIFE™ Cream will be marketed through the pharmacy networks for the indication of temporary relief of muscular skeletal and arthritic pain.

Recruitment of key technical personnel has continued and the Company now has considerable expertise in the compilation of regulatory submission data compliant with Australian (TGA), UK (MHRA) and US (FDA) regulatory authorities.

Laboratory facilities at the Company's wholly-owned subsidiary Cambridge Scientific Pty Ltd have been upgraded and expanded so that research and development activities can be performed in house. An experienced Development Chemist has been employed and the Company will now be undertaking its own stability studies and product development.

Strategic alliances with TGA registered chemical and microbiological laboratories and a clinical research organisation have been formed to increase the Company's research and development capabilities.

### THERMALIFE

ThermaLIFE™ Cream was registered in 1988 by Thermalife International Pharmaceuticals Pty Ltd, a wholly owned subsidiary of Pharmed 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 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.

The unique 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.

### MANUFACTURING ACTIVITIES

Commercial production of ThermaLIFE™ Cream commenced after approval of the modified manufacturing processes by the TGA. A 20g ThermaLIFE™ cream tube blister packed as a sample for marketing purposes has been manufactured in addition to the normal 75g retail pack. Commercial quantities are warehoused awaiting the planned market release through the pharmacy networks.



## **Review of Operations (*continued*)**

Greater flexibility in the manufacturing processes has been achieved by stabilising the active ingredient Nutracel. Stability studies have shown that the active may be stored below 30<sup>0</sup>C for a reasonable period. A batch of Nutracel may now be used to manufacture any of the current related TGA-registered products so as to meet market requirements. Validation of the cream manufacturing process in the new contract manufacturing premises is nearing completion for a variety of batch sizes.

Ongoing stability studies to support manufacturing activities will be performed in the Company's laboratories in Perth.

### **RESEARCH AND DEVELOPMENT ACTIVITIES**

During the financial year, laboratory facilities at the Company's wholly-owned subsidiary Cambridge Scientific Pty Ltd have been upgraded and expanded and a new Development Chemist appointed. Chemical and biological assays have been developed for QC release and stability programs to confirm quality and efficacy of the active protein ingredient and to comply with regulatory requirements. Specialised assays which cannot be performed in-house have been contracted out to TGA-licensed chemical and microbiological laboratories and to clinical research organisations (CRO).

Through the Company's wholly-owned subsidiary Cambridge Scientific Pty Ltd, the Company previously 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 Scientific, a new Intellectual Property portfolio was developed. These patent applications cover pain and inflammation, anti-cytokine activities, COX2 inhibitory activities and burn treatments.

During the reporting period, fractionation and chemical characterisation of the peptide therapeutic agents has commenced in Cambridge Scientific laboratories with biological activity to be determined by a partner CRO using cell assays. This research is twofold, concentrating both on the use of biological activity to support shelf life and efficacy studies of current products and, secondly, on characterisation of specific biologically active peptides for development of new products.

In the last year, Cambridge Scientific has completed manufacture of commercial production batches of ThermaLIFE™ Cream. Further refinement of the manufacturing process for ThermaLIFE™ Cream and development of related products and the associated quality systems remains a major focus for the Company.

Initial research into the development of Savantac® and RED® has commenced as commercial production of the ThermaLIFE™ Cream has permitted allocation of laboratory resources. 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.

### **Intellectual Property Portfolio**

The year ended with the news that the New Zealand and Indian Patent Offices have granted applications covering a composition with analgesic and anti-inflammatory activities. This patent family is the foundation of the Cambridge Scientific Intellectual Property strategy and the granting of the New Zealand and Indian applications add to the two already granted patents in South Africa and the USA. Other applications in this family are in the advanced stages of examination in jurisdictions such as Europe and Australia and similar positive results are anticipated in the near future.

## Review of Operations (*continued*)

Building upon this foundation family of patents, three additional patent families are directed to compositions having activities such as treating tissue disruption, mediating Cox-2 inhibition and cytokine and secondary injury mediation. The families of patent application are pending in eight major jurisdictions, including the USA. The filing of additional applications is 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 Pty Ltd currently holds granted patents in South Africa (2007/07291), USA (11/059580), New Zealand (560737) and India (1295/MUMNP/2007). The patents cover the use and manufacture of an Analgesic and Anti-inflammatory Composition.

Applications from this family are pending in Canada and awaiting examination in Europe. Examination of the Australian application is in progress and a divisional application of the granted US Patent is awaiting examination in the USA.

### Patent applications in National Phase

Cambridge Scientific Pty Ltd has four patent families in National Phase in up to eight different jurisdictions (i.e. USA, Canada, Europe, India, Hong Kong, New Zealand, South Africa and Australia).

#### 1. Analgesic and Anti-inflammatory Composition

The patent application regarding the Analgesic and Anti-inflammatory Composition is awaiting examination in three countries, is under examination in one country and has been granted in four countries.

<i>Application</i>	<i>Filing date</i>	<i>Country</i>	<i>Filing type</i>	<i>Status</i>
11/059580	16/02/2005	USA	Complete	GRANTED
2597431	10/02/2006	Canada	Pending	Awaiting examination
EP06704862.9	10/02/2006	Europe	Pending	Awaiting examination
1295/MUMNP/2007	10/02/2006	India	Complete	GRANTED
560737	10/02/2006	New Zealand	Complete	GRANTED
2007/07291	10/02/2006	South Africa	Complete	GRANTED
2006212722	10/02/2006	Australia	Pending	Under examination
12/415171	16/02/2005	USA	Pending	Awaiting examination

## Review of Operations (*continued*)

### 2. *Tissue Disruption Treatment and Composition for use thereof*

The patent application regarding Tissue Disruption Treatment and Composition for use thereof is under examination in three countries, awaiting examination in four countries and has been accepted in one country.

<i>Application</i>	<i>Filing date</i>	<i>Country</i>	<i>Filing type</i>	<i>Status</i>
11/218382	1/09/2005	USA	Pending	Under examination
2624316	1/09/2006	Canada	Pending	Awaiting examination
06774917.6	1/09/2006	Europe	Pending	Under examination
2646/DELNP/2008	1/09/2006	India	Pending	Awaiting examination
567067	1/09/2006	New Zealand	Complete	Accepted for grant
2008-528298	1/06/2006	Japan	Pending	Awaiting examination
2006287128	1/09/2006	Australia	Pending	Under examination
08107834.7	1/09/2006	Hong Kong	Pending	Awaiting examination

### 3. *Cytokine Mediating Composition*

The patent application regarding the Cytokine Mediating Composition is under examination in one country, awaiting examination in six countries and has been accepted in one country.

<i>Application</i>	<i>Filing date</i>	<i>Country</i>	<i>Filing type</i>	<i>Status</i>
TBA	27/04/2007	USA	Pending	Awaiting examination
2646302	27/04/2007	Canada	Pending	Awaiting examination
07718801.9	27/04/2007	Europe	Pending	Awaiting examination
2468/MUMNP/2008	27/04/2007	India	Pending	Awaiting examination
573110	27/04/2007	New Zealand	Pending	Under examination
09106709.0	27/04/2007	Hong Kong	Pending	Awaiting examination
2007246166	27/04/2007	Australia	Pending	Awaiting examination
2008/09970	27/04/2007	South Africa	Complete	GRANTED

### 4. *COX2 Inhibitor*

The patent application regarding the COX2 Inhibitor is under examination in one country, awaiting examination in six countries and has been granted in one country.

<i>Application</i>	<i>Filing date</i>	<i>Country</i>	<i>Filing type</i>	<i>Status</i>
12/226786	27/04/2007	USA	Pending	Awaiting examination
2647336	27/04/2007	Canada	Pending	Awaiting examination
07718802.7	27/04/2007	Europe	Pending	Awaiting examination
2467/MUMNP/2008	27/04/2007	India	Pending	Awaiting examination
573111	27/04/2007	New Zealand	Pending	Under examination
09106711.6	27/04/2007	Hong Kong	Pending	Awaiting examination
2007246167	27/04/2007	Australia	Pending	Awaiting examination
2008/10025	27/04/2007	South Africa	Complete	GRANTED

## **Review of Operations (*continued*)**

### **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.

#### **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 its Controlled Entities for the year ended 30 June 2010.

### **DIRECTORS**

The names of directors of the Company in office at any time during or since the end of the financial year are:

John Palermo  
Christopher John Quirk  
John James Found

### **NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES**

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

### **OPERATING RESULTS**

The net amount of the consolidated loss for the year after providing for income tax was \$1,075,790 (2009: \$974,860).

### **DIVIDENDS**

The directors do not recommend the payment of a dividend for the year ended 30 June 2010.

### **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.

### **ENVIRONMENTAL REGULATION**

The Company 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.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

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

### **EVENTS SUBSEQUENT TO REPORTING PERIOD**

Subsequent to the end of the financial year ended 30 June 2010, the following events have occurred:

- Since the end of the reporting period, the Company announced to the market that it had received all appropriate regulatory approvals and that stock was in the manufacturer's warehouse ready for marketing.
- The Company held a General Meeting on 31 August 2010 seeking approval to issue up to 100,000,000 shares and 100,000,000 free attaching options on the terms set out in the notice. The resolution put to the members was passed.

## Directors' Report (*continued*)

### 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)

#### Christopher John Quirk MB BS.FACD

Dr Quirk is an Australian dermatologist who has been a teaching hospital consultant for 25 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 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)

#### John James Found Dip. Chem., C. Chem., MRACI

Mr Found's career as a chemist spans some 30 years from being engaged in the manufacture of a range of specialty drug products to working in every facet of the pharmaceutical industry including regulatory affairs and product-based research and development. Mr Found has been instrumental in the formulation and registration of approximately 300 therapeutic medicines and devices during his career. In 1998, Mr Found joined the board of Wild Child where he is responsible for handling all regulatory affairs, quality assurance and product development activities as well as technical aspects of public relations and promotions. During the past three years, Mr Found has not served as a director on any other listed companies.

### 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
37,500,000	\$0.05, \$0.10 and \$0.15	31 December 2010
133,252,800	\$0.015	30 June 2011
13,550,000	\$0.01, \$0.015 and \$0.025	31 December 2011
8,350,000	\$0.015	31 December 2012

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' Report (continued)

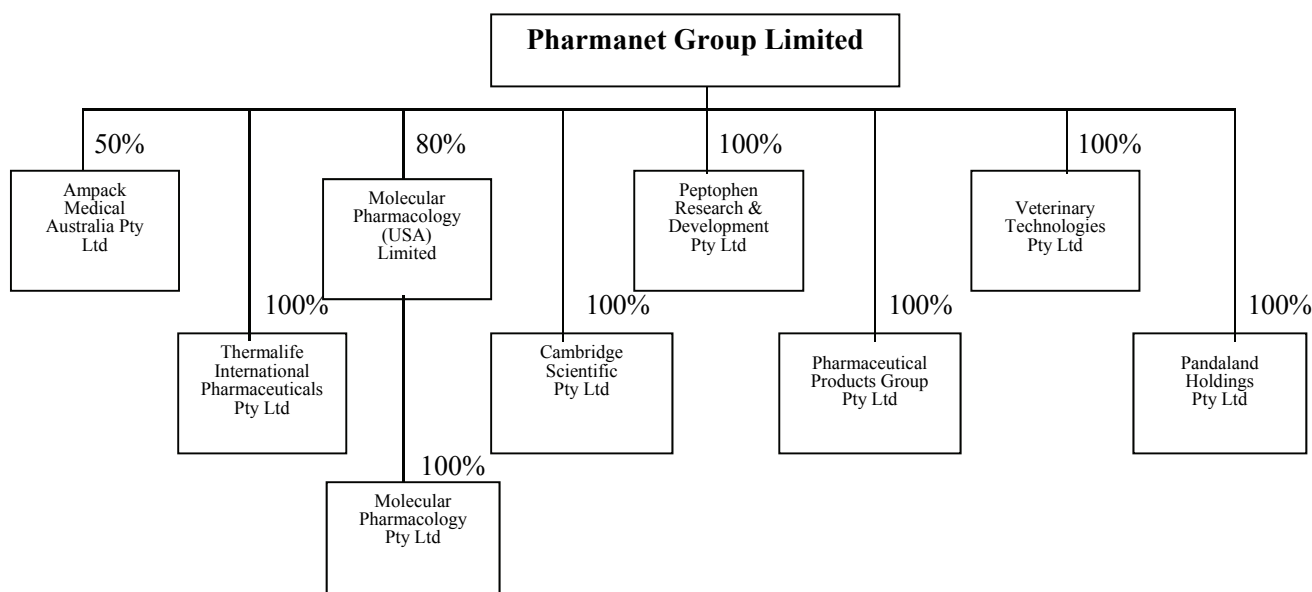
### DIRECTORS' MEETINGS

During the financial year ended 30 June 2010, the Company held 35 directors' meetings, including directors' resolutions. The total number of meetings attended and circular resolutions executed by each director were:

	Board Meetings		Resolutions
	Number Eligible to Attend	Number Attended	Number Executed
John Palermo	3	3	32
Christopher John Quirk	3	3	32
John James Found	3	3	32

### 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:



### 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.

### REMUNERATION REPORT

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

## Directors' Report *(continued)*

### REMUNERATION REPORT *(continued)*

#### Remuneration policy

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 Company's ability to attract and retain the best executives and directors to run and manage the Company.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Company 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

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

#### Key management personnel compensation

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

<b>Chairman – Executive</b>	<b>Non-Executive Directors</b>
J Palermo	C J Quirk
	J J Found

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

#### Service agreements

##### *Remuneration of Non-Executive Directors*

Dr Chris Quirk and Mr John Found are paid \$25,000 per annum each. They are paid quarterly in arrears for consulting fees.

##### *Remuneration of Company Secretary*

Mr John Palermo is paid on an hourly basis on normal commercial terms.

## Directors' Report (continued)

### REMUNERATION REPORT (continued)

Details of the nature and amount of each major element of the emoluments of each director of the Company and each of the named executive officers of the Company, receiving the highest emoluments, for the financial years ended 30 June 2010 and 30 June 2009 are:

	Primary Salary & Fees (\$)	Cash Bonus (\$)	Non- Monetary (\$)	Post Employment Superann- uation (\$)	Retirement Benefits (\$)	Equity Options (\$)	Other Benefits (\$)	Total (\$)
<b>Directors</b>								
<b>Palermo, J: Chairman (executive)</b>								
2010	259,572	--	--	--	--	30,600	12,007	302,179
2009	227,120	--	--	--	--	8,800	9,170	245,090
<b>Quirk, C J: Director (non-executive)</b>								
2010	13,450	--	--	--	--	15,300	--	28,750
2009	25,000	--	--	--	--	4,400	--	29,400
<b>Found, J J: Director (non-executive)</b>								
2010	25,000	--	--	--	--	15,300	--	40,300
2009	14,583	--	--	--	--	--	--	14,583
<b>Total Directors</b>								
2010	298,022	--	--	--	--	61,200	12,007	371,229
2009	266,703	--	--	--	--	13,200	9,170	289,073

### Remuneration Options (2010)

	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	6/11/2009	2,000,000	\$0.0074	\$0.01	31/12/2011	31/12/2011
	2,000,000	6/11/2009	2,000,000	\$0.0079	\$0.015	31/12/2012	31/12/2012
C J Quirk	1,000,000	6/11/2009	1,000,000	\$0.0074	\$0.01	31/12/2011	31/12/2011
	1,000,000	6/11/2009	1,000,000	\$0.0079	\$0.015	31/12/2012	31/12/2012
J J Found	1,000,000	6/11/2009	1,000,000	\$0.0074	\$0.01	31/12/2011	31/12/2011
	1,000,000	6/11/2009	1,000,000	\$0.0079	\$0.015	31/12/2012	31/12/2012

During the year ended 30 June 2010, no options issued to directors for remuneration purposes were forfeited, lapsed or exercised.

### Remuneration Options (2009)

	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	28/11/2008	2,000,000	\$0.0021	\$0.01	28/11/2008	31/12/2011
	2,000,000	28/11/2008	2,000,000	\$0.0023	\$0.015	28/11/2008	31/12/2012
C J Quirk	1,000,000	28/11/2008	1,000,000	\$0.0021	\$0.01	28/11/2008	31/12/2011
	1,000,000	28/11/2008	1,000,000	\$0.0023	\$0.015	28/11/2008	31/12/2012
J J Found	--	--	--	--	--	--	--

## Directors' Report (continued)

### REMUNERATION REPORT (continued)

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.

The model inputs for options granted during the year ended 30 June 2010 included:

- options are granted for no consideration (2009: Nil)
- exercise price: \$0.01 and \$0.015 (2009: \$0.01 and \$0.015)
- grant date: 6 November 2009 (2009: 28 November 2008)
- expiry date: 31 December 2011 and 31 December 2012 (2009: 31 December 2011 and 31 December 2012)
- share price at grant date: \$0.01 (2009: \$0.003)
- expected price volatility of the Company's shares: 150% (2009: 150%)
- risk-free interest rate: 4.6375% (2009: 6.5%)

### Additional information

#### Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on page 12, 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	--	--	2010	100	--	--	--	--
			2009	100	--	--	--	--
C J Quirk	--	--	2010	100	--	--	--	--
			2009	100	--	--	--	--
J J Found	--	--	2010	100	--	--	--	--
			2009	--	--	--	--	--

#### 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	10%	30,600	--	--	30,600
C J Quirk	53%	15,300	--	--	15,300
J J Found	38%	15,300	--	--	15,300

- 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.

**Directors' Report (*continued*)**

**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:

	<b>Number of Ordinary Shares</b>	<b>Number of Options over Ordinary Shares</b>
John Palermo	4,376,194	22,273,515
Christopher John Quirk	2,857,143	12,178,572
John James Found	--	2,000,000

**AUDITOR'S INDEPENDENCE DECLARATION**

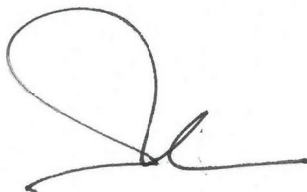
A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 17.

**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 18. 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 board of directors.



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**JOHN PALERMO**

*Director*

Dated at Perth this 28<sup>th</sup> day of September, 2010

**RSM Bird Cameron Partners**  
8 St George's Terrace Perth WA 6000  
GPO Box R1253 Perth WA 6844  
T +61 8 9261 9100 F +61 8 9261 9111  
www.rsmi.com.au

## 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, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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(a), 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 consolidated 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.

Liability limited by a scheme approved under Professional Standards 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. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.



*Auditor's Independence Declaration*

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 Pharmanet Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 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(a).

**Report on the Remuneration Report**

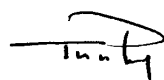
We have audited the Remuneration Report which is included within the directors' report for the financial year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. 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 Pharmanet Group Limited for the financial year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

*Rsm Bird Cameron Partners*

RSM BIRD CAMERON PARTNERS  
Chartered Accountants



TUTU PHONG  
Partner

Perth, WA  
Dated: 28 September 2010

**RSM Bird Cameron Partners**  
8 St Georges Terrace Perth WA 6000  
GPO Box R1253 Perth WA 6844  
T +61 8 9261 9100 F +61 8 9261 9111  
www.rsmi.com.au

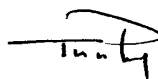
**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Pharmanet Group Limited for the year ended 30 June 2010, 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.

*Rsm Bird Cameron Partners*

RSM BIRD CAMERON PARTNERS  
Chartered Accountants



TUTU PHONG  
Partner

Perth, WA  
Dated: 28 September 2010

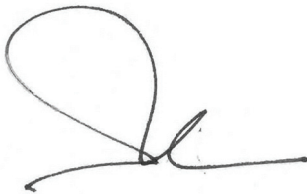
**DIRECTORS' DECLARATION**

In the opinion of the directors:

- a) The financial statements, notes and additional disclosures included in the directors' report designated as audited, are in accordance with the Corporations Act 2001, including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
  - ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as disclosed in Note 1(a); and
- c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.



---

**JOHN PALERMO**

*Director*

Perth, Western Australia

Dated at Perth this 28<sup>th</sup> day of September, 2010

## Statement of Comprehensive Income for the year ended 30 June 2010

	NOTE	<u>CONSOLIDATED</u>	
		2010	2009
		\$	\$
Revenue	3	48,595	18,730
Other income	3	187,479	119,834
Borrowing costs	4(a)	(117,582)	(100,293)
Depreciation expense	4(a)	(29,083)	(24,224)
Administration fees and administration benefits expenses	4(b)	(166,080)	(136,367)
Analysis and product testing	4(b)	(18,642)	(43,802)
Auditor's remuneration	4(b)	(50,763)	(66,504)
Communication costs	4(b)	(5,143)	(3,672)
Company secretarial expenses	4(b)	(30,000)	(30,000)
Consultants, consultant's benefits expenses and legal expenses	4(a)	(392,596)	(276,414)
Directors and employees benefits expense	4(b)	(166,128)	(119,015)
Patent expenses	4(b)	(102,508)	(130,465)
Product samples and consumables	4(b)	(7,177)	(13,957)
Rent premises	4(a)	(23,130)	(22,971)
Travel and accommodation expenses	4(a)	(37,399)	(17,966)
Write down of loans	4(b)	(4,881)	(667)
Other expenses	4(b)	(160,752)	(101,107)
Non-controlling interest assumed by Company		--	(26,000)
<b>Loss before income tax</b>		(1,075,790)	(974,860)
Income tax	5	--	--
<b>Loss for the period</b>		(1,075,790)	(974,860)
<b>Other comprehensive income</b>			
Currency translation differences		1,265	(3,116)
Income tax relating to components of other comprehensive income for the period		--	--
<b>Other comprehensive income for the period</b>		1,265	(3,116)
<b>Total comprehensive loss for the period</b>		(1,074,525)	(977,976)
<b>Loss attributable to:</b>			
Members of the parent entity		(1,049,532)	(974,860)
Non-controlling interest		(26,258)	--
		(1,075,790)	(974,860)
<b>Total comprehensive loss attributable to:</b>			
Members of the parent entity		(1,048,267)	(977,976)
Non-controlling interest		(26,258)	--
		(1,074,525)	(977,976)
		<b>2010</b>	<b>2009</b>
Basic and diluted loss per share (cents)	23	(0.15)	(0.23)

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

**Statement of Financial Position**  
**as at 30 June 2010**

	NOTE	<u>CONSOLIDATED</u>	
		2010	2009
		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents	6	1,963,146	357,341
Other current assets	7	103,440	82,054
<b>Total Current Assets</b>		2,066,586	439,395
<b>Non Current Assets</b>			
Plant and equipment	8	108,966	122,474
<b>Total Non Current Assets</b>		108,966	122,474
<b>Total Assets</b>		2,175,552	561,869
<b>Current Liabilities</b>			
Trade and other payables	9	397,661	573,962
Interest bearing liabilities	10	1,060,000	810,000
<b>Total Current Liabilities</b>		1,457,661	1,383,962
<b>Non Current Liabilities</b>			
Interest bearing liabilities	10	300,000	250,000
<b>Total Non Current Liabilities</b>		300,000	250,000
<b>Total Liabilities</b>		1,757,661	1,633,962
<b>Net Assets/(Liabilities)</b>		417,891	(1,072,093)
<b>Equity</b>			
Issued capital	11	23,182,479	20,913,394
Reserves	12	1,003,673	706,984
Accumulated losses		(23,742,003)	(22,692,471)
Total parent equity interest		444,149	(1,072,093)
Non-controlling interest		(26,258)	--
<b>Total Equity/(Deficiency in Equity)</b>		417,891	(1,072,093)

The above statement of financial position  
should be read in conjunction with the accompanying notes.

**Statement of Changes in Equity  
for the year ended 30 June 2010**

	Ordinary Issued Capital	Foreign Currency Translation Reserve	Share Based Payments Reserve	Accumulated Losses	Non- Controlling Interest	Total
<b>Consolidated</b>	\$	\$	\$	\$	\$	\$
<b>Balance at 01/07/2008</b>	20,590,888	(2,826)	699,726	(21,717,611)	--	(429,823)
Loss for the period	--	--	--	(948,860)	(26,000)	(974,860)
Non-controlling interest assumed by Company	--	--	--	(26,000)	26,000	--
Foreign currency translation differences	--	(3,116)	--	--	--	(3,116)
<b>Total comprehensive loss for the period</b>	--	(3,116)	--	(974,860)	--	(977,976)
<b>Transactions with owners recorded directly into equity</b>						
Shares issued during the year	80,000	--	--	--	--	80,000
Share application monies received	248,706	--	--	--	--	248,706
Options issued during the year	--	--	13,200	--	--	13,200
Transaction costs	(6,200)	--	--	--	--	(6,200)
<b>Balance at 30/06/2009</b>	<b>20,913,394</b>	<b>(5,942)</b>	<b>712,926</b>	<b>(22,692,471)</b>	<b>--</b>	<b>(1,072,093)</b>
<b>Balance at 01/07/2009</b>	20,913,394	(5,942)	712,926	(22,692,471)	--	(1,072,093)
Loss for the period	--	--	--	(1,049,532)	(26,258)	(1,075,790)
Foreign currency translation differences	--	1,265	--	--	--	1,265
<b>Total comprehensive loss for the period</b>	--	1,265	--	(1,049,532)	(26,258)	(1,074,525)
<b>Transactions with owners recorded directly into equity</b>						
Shares issued during the year	2,709,887	--	--	--	--	2,709,887
Options issued during the year	--	--	295,424	--	--	295,424
Transaction costs	(440,802)	--	--	--	--	(440,802)
<b>Balance at 30/06/2010</b>	<b>23,182,479</b>	<b>(4,677)</b>	<b>1,008,350</b>	<b>(23,742,003)</b>	<b>(26,258)</b>	<b>417,891</b>

The above statement of financial position  
should be read in conjunction with the accompanying notes.

**Statement of Cash Flows**  
**for the year ended 30 June 2010**

	NOTE	<u>CONSOLIDATED</u>	
		2010	2009
		\$	\$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		187,479	119,834
Payments to suppliers and employees		(1,250,384)	(781,916)
Interest received		15,517	26,897
Borrowing costs		(117,582)	(81,193)
		<hr/>	<hr/>
<b>Net Cash Flows Used In Operating Activities</b>	2	(1,164,970)	(716,378)
<b>Cash Flows From Investing Activities</b>			
Payment for plant and equipment		(15,575)	(78,889)
		<hr/>	<hr/>
<b>Net Cash Flows Used In Investing Activities</b>		(15,575)	(78,889)
<b>Cash Flows From Financing Activities</b>			
Proceeds from issue of shares and options		2,709,887	80,000
Payment of costs relating to issue of shares and options		(224,802)	(6,200)
Proceeds from borrowings		300,000	250,000
Share application monies received		--	248,706
		<hr/>	<hr/>
<b>Net Cash Flows Provided By Financing Activities</b>		2,785,085	572,506
<b>Net increase/(decrease) in cash and cash equivalents held</b>			
		1,604,540	(222,761)
Cash and cash equivalents held at the beginning of the financial year		357,341	583,218
Effect of exchange rate changes on cash holdings		1,265	(3,116)
		<hr/>	<hr/>
<b>Cash and cash equivalents held at the end of the financial year</b>	6	1,963,146	357,341
		<hr/> <hr/>	<hr/> <hr/>

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

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Separate financial statements for Pharmanet Group Limited as the parent entity are no longer presented as a consequence of changes to the Corporations Act 2001, however required financial information for Pharmanet Group Limited as the parent entity is included in Note 25.

The significant policies, which have been adopted in the preparation of this financial report, are:

#### **Basis of Preparation**

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 28 September 2010.

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 significant policies, which have been adopted in the preparation of this financial report, are:

#### **(a) Statement of Compliance**

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

#### **(b) Adoption of New and Revised Accounting Standards**

The Company has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current financial year. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

#### **(i) Presentation of Financial Statements**

The Company has applied the revised AASB 101 Presentation of Financial Statements (2007) from 1 January 2009. The revision of this standard now requires the Company to present all non-owner changes to equity ('comprehensive income') in the statement of comprehensive income. The Company has presented the statement of comprehensive income and non-owner changes in equity in one statement of comprehensive income. All owner changes in equity are presented separately in the statement of changes in equity.

The presentation requirements have been applied for the entire reporting period and comparative information has been re-presented to also comply with the revised AASB 101.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **(b) Adoption of New and Revised Accounting Standards *(continued)***

##### **(ii) Segment Reporting**

The Company has applied AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires the entity to identify operating segments and disclose segment information on the basis of internal reports that are provided to, and reviewed by, the chief operating decision maker of the Company to allocate resources and assess performance. In the case of the Company, the chief operating decision maker is the Board of Directors. Operating segments now represent the basis on which the Company reports its segment information to the Board on a monthly basis. The change in policy has not resulted in a change to the disclosure presented.

##### **(iii) Business Combinations and Consolidation Procedures**

Revised AASB 3 Business Combinations and AASB 127 Consolidated and Separate Financial Statements apply prospectively from 1 July 2009. Changes introduced by these standards which are expected to affect the Company, include the following:

- Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation;
- Any non-controlling interest (previously known as minority interest) in an acquiree is measured at either fair value or as the non-controlling interest's proportionate share of net identifiable assets of the acquiree;
- The acquirer is prohibited from recognising contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability;
- Consideration for the acquisition, including contingent consideration, must be measured at fair value at acquisition date. Subsequent changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments but are rather recognised in accordance with other Australian Accounting Standards as appropriate;
- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity; and
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

#### **(c) 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 20 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.

Non-controlling interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial statements.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (d) 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 statement of financial position 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 statement of comprehensive income 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.

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 Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### (e) 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 either a diminishing value method or a straight line 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	2.5-100%
---------------------	----------

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position 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.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **(e) Property, Plant and Equipment *(continued)***

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

#### **(f) Financial Assets and Financial Liabilities**

Financial assets and financial liabilities are recognised on the statement of financial position when Pharmed 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 statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

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 statement of cash flows, 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.

#### **(g) 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 statement of comprehensive income.

#### **(h) 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 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **(h) 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.

#### **(i) 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.

#### **(j) 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.

#### **(k) 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).

#### **(l) 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 statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows 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 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **(m) 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 statement of comprehensive income.

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 statement of comprehensive income.

##### **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 statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

#### **(n) Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges. Borrowing costs are expensed as incurred.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (o) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows;

- AASB 9: Financial Instruments and AASB 2009-11; Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 138, 139, 1023 & 1038 and Interpretations 10 & 121] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of those investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
  - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
    - (a) the objective of the entity's business model for managing the financial assets; and
    - (b) the characteristics of the contractual cash flows.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Company.

- AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

- AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for accounting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. The amendments are not expected to impact the Company.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (o) New Accounting Standards for Application in Future Periods *(continued)*

- AASB 2009-9: Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Company.

- AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Company.

- AASB 2009-12: Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also reflects AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purpose of certain operating segment disclosures. These amendments are not expected to impact the Company.

- AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

- AASB 2009-14: Amendments to Australian Interpretation – Prepayments of Minimum Funding Requirements [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This standard will not impact the Company.

- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (application for annual reporting periods commencing on or after 1 July 2010).

This interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Company.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **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 Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 2: STATEMENT OF CASH FLOWS

#### Reconciliation of the Net Operating Loss for the period to the Net Cash Flows from Operations

	<u>CONSOLIDATED</u>	
	2010	2009
	\$	\$
Loss for the period	(1,075,790)	(974,860)
Debt conversions	(216,000)	--
Depreciation of plant and equipment	29,083	24,224
Diminution in value of loans	4,881	667
Equity settled share based payments	295,424	13,200
Movements in assets and liabilities		
- Accrued income	(33,078)	8,167
- Prepayments	1,278	(19,035)
- Accounts payable and accruals	(181,182)	247,630
- GST receivable	10,414	(16,371)
<b>Net cash flows used in operating activities</b>	<b>(1,164,970)</b>	<b>(716,378)</b>

#### Non-cash investing and financing activities

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

During the period, there was a share based payment in the form of unlisted options issued in lieu of cash payments for share issue costs

The details of this payment are made in Note 11.

### NOTE 3: REVENUE AND OTHER INCOME

#### Revenue from non-operating activities

Interest – other parties	48,595	18,730
Total revenue from non-operating activities	48,595	18,730
<b>Total revenues</b>	<b>48,595</b>	<b>18,730</b>
<b>Other income</b>		
Research and development tax offset	148,187	110,951
Export market development grant	39,292	6,903
Rent received	--	1,980
<b>Total other income</b>	<b>187,479</b>	<b>119,834</b>

## Notes to the Financial Statements for the Year Ended 30 June 2010

NOTE 4: EXPENSES AND GAINS/(LOSSES)	<b>CONSOLIDATED</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Expenses</b>		
Depreciation of non-current assets - plant and equipment	29,083	24,224
Operating lease rental	23,130	22,971
Borrowing costs – other parties	117,582	100,293
Consultants, consultants’ benefits, expenses and legal expenses	392,596	276,414
Travel and accommodation expenses	37,399	17,966
<b>(b) Significant items</b>		
Loss before income tax includes the following expenses whose disclosure is relevant in explaining the financial performance of the entity:		
Administration fees and administration benefits expenses	166,080	136,367
Analysis and product testing	18,642	43,802
Auditor’s remuneration	50,763	66,504
Communication costs	5,143	3,672
Company secretarial expenses	30,000	30,000
Directors and employees benefits expenses	166,128	119,015
Patent expenses	102,508	130,465
Product samples and consumables	7,177	13,957
Write down of loans	4,881	667
Other expenses	160,752	101,107
	712,074	645,556
<b>NOTE 5: INCOME TAX</b>		
<b>(a) Income tax expense</b>		
The prima facie tax on loss before income tax is reconciled to the income tax as follows:		
Loss before income tax	(1,075,790)	(974,860)
Income tax calculated at 30%	(322,737)	(292,457)
Add back:		
Non-allowable expenditure	(68,207)	(63,105)
Adjustment of tax relating to prior periods	200,808	(198,759)
Deferred tax asset in respect to losses not brought to account	190,136	554,321
<b>Income tax</b>	--	--

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 5: INCOME TAX *(continued)*

<b>(b) Tax losses for which no deferred tax asset has been recognised</b>	<b><u>CONSOLIDATED</u></b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Unused tax losses	13,716,887	13,083,080
Potential tax benefit @ 30%	4,115,060	3,924,924
Deferred income tax assets have not been recognised as it is not probable that taxable income will be generated in future periods.		

### NOTE 6: CASH AND CASH EQUIVALENTS

Cash balance comprises:

Cash at bank	73,144	287,339
Term deposit	1,890,000	70,000
Cash on hand	2	2
	1,963,146	357,341

### NOTE 7: OTHER ASSETS

#### **Current**

Accrued income	33,631	553
GST receivable	48,904	59,318
Prepayments	20,905	22,183
	103,440	82,054

### NOTE 8: PLANT AND EQUIPMENT

Plant and equipment at cost	178,037	162,462
Less: accumulated depreciation	(69,071)	(39,988)
	108,966	122,474
<b>(a) Reconciliations of net carrying amount</b>		
Plant and equipment:		
Carrying amount at beginning of year	122,474	67,809
Additions	15,575	78,889
Depreciation expense	(29,083)	(24,224)
	108,966	122,474

## Notes to the Financial Statements for the Year Ended 30 June 2010

	<u>CONSOLIDATED</u>	
	2010	2009
	\$	\$
<b>NOTE 9: TRADE AND OTHER PAYABLES</b>		
<b>Current</b>		
Trade creditors	263,073	415,797
Accrued expenses	119,753	132,800
Loans – unsecured	14,835	25,365
	397,661	573,962
Trade creditors and accruals include the following amounts with related parties:		
Directors and director related entities	176,694	272,219

**(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.

**NOTE 10: INTEREST-BEARING LIABILITIES**

<b>Current</b>		
Convertible notes – unsecured	1,060,000	810,000
<b>Non current</b>		
Convertible notes – unsecured	300,000	250,000

**(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 2011 <sup>(i)</sup>
31 March 2008	200,000	12% per annum	30 April 2011 <sup>(ii)</sup>
1 June 2008	410,000	12% per annum	1 June 2011 <sup>(iii)</sup>
31 December 2008	250,000	12% per annum	31 December 2010
5 February 2010	300,000	12% per annum	5 February 2012
	1,360,000		

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.

The notes issued in December 2008 are convertible to shares and options at the option of the holder at the lower of \$0.0015 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 February 2010 are convertible to shares and options at the option of the holder at the lower of \$0.0107 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.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 10: INTEREST-BEARING LIABILITIES *(continued)*

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 2010, as they were extended for a further 12 months.
- (ii) The convertible notes issued on 31 March 2008 were not converted on 30 April 2010, as they were extended for a further 12 months.
- (iii) The convertible notes issued on 1 June 2008 were not converted on 1 June 2010, as they were extended for a further 12 months.

<u>CONSOLIDATED</u>	
2010	2009
\$	\$

### NOTE 11: ISSUED CAPITAL

#### Issued capital :

854,843,182 ordinary shares fully paid  
(2009: 446,652,913)

23,182,479	20,913,394
------------	------------

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

Date	Details	Number of Shares	Issue Price	\$
01/07/09	Opening balance	446,652,913		20,913,394
01/07/09	Share application monies received 30/06/09	--	--	(248,706)
09/07/09	Rights issue prospectus	148,884,871	\$0.004	595,539
16/07/09	Working capital	50,000,000	\$0.004	200,000
05/02/10	Working capital	100,000,000	\$0.0107	1,070,000
08/03/10	Conversion of unlisted options	2,800,000	\$0.01	28,000
08/04/10	Non-renounceable rights issue	106,505,398	\$0.01	1,065,054
	Less: transaction costs arising on share issues	--		(440,802)
30/06/10	Closing balance	854,843,182		23,182,479

#### 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.

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 2010 and 30 June 2009 are as follows:

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 11: ISSUED CAPITAL *(continued)*

	<u>CONSOLIDATED</u>	
	2010	2009
	\$	\$
Total borrowings	1,360,000	1,060,000
Less cash and cash equivalents	(1,963,146)	(357,341)
Net debt	(603,146)	702,659
Total equity/(deficiency)	417,891	(1,072,093)
Total capital	(185,255)	(369,434)
Gearing ratio	(326)%	(190)%

### NOTE 12: RESERVES

#### (a) Composition

(i) Share based payment reserve	1,008,350	712,926
(ii) Foreign currency translation reserve	(4,677)	(5,942)
	1,003,673	706,984

- (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.

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

Date	Details	Number of Options		Fair Value of Options Issued	Exercise Price	Expiry Date
		Listed	Unlisted			
01/07/2009	Opening balance	--	51,500,000	\$712,926	--	--
19/11/2009	Pursuant to resolution of members (a)	--	5,350,000	\$38,375	\$0.01	31/12/2011
19/11/2009	Pursuant to resolution of members (b)	--	5,350,000	\$41,049	\$0.015	31/12/2012
05/02/2010	Working capital (c)	--	50,000,000	--	\$0.015	30/06/2011
05/02/2010	Share based payments (d)	--	30,000,000	\$216,000	\$0.015	30/06/2011
08/03/2010	Option conversions	--	(2,800,000)	--	\$0.01	31/12/2011
08/04/2010	Non-renounceable rights issue (c)	53,252,800	--	--	\$0.015	30/06/2011
08/04/2010	Existing unlisted options changed to listed options	80,000,000	(80,000,000)	--	\$0.015	30/06/2011
30/06/2010	Closing balance	133,252,800	59,400,000	\$1,008,350		

- (a) Unlisted options issued to directors (4,000,000 at \$0.0074 per option) and to consultants (1,350,000 at \$0.0065 per option) valued via the Black-Scholes Valuation Method.
- (b) Unlisted options issued to directors (4,000,000 at \$0.0079 per option) and to consultants (1,350,000 at \$0.007 per option) valued via the Black-Scholes Valuation Method.
- (c) Free attaching options.
- (d) Unlisted options issued regarding capital raising costs at \$0.0072 per option valued via the Black-Scholes Valuation Method.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 13: CONTINGENT LIABILITIES

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

### NOTE 14: CAPITAL AND LEASE COMMITMENTS

#### *(a) Capital Expenditure commitments*

There were no capital expenditure commitments as at 30 June 2010.

#### *(b) Finance lease and hire purchase commitments*

There were no finance lease and hire purchase commitments as at 30 June 2010.

#### *(c) Operating lease commitments*

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

Between 12 months and 5 years

	<u>CONSOLIDATED</u>	
	2010	2009
	\$	\$
	18,300	18,300
	73,200	73,200
	91,500	91,500
	91,500	91,500

### NOTE 15: EVENTS SUBSEQUENT TO REPORTING PERIOD

Subsequent to the end of the financial year ended 30 June 2010, the following events have occurred:

- Since the end of the reporting period, the Company announced to the market that it had received all appropriate regulatory approvals and that stock was in the manufacturer's warehouse ready for marketing.
- The Company held a General Meeting on 31 August 2010 seeking approval to issue up to 100,000,000 shares and 100,000,000 free attaching options on the terms set out in the notice. The resolution put to the members was passed.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 16: SEGMENT INFORMATION

#### Business

The directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded that at this time there are no separate identifiable business segments.

The operation and assets of Pharmanet Limited and its controlled entities operate in one business segment, being the research, development, investment, manufacture and distribution of pharmaceutical products.

#### Geographical

	<b>Australia</b>		<b>USA</b>		<b><i>Consolidated</i></b>	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Total revenue	236,074	113,217	--	25,347	236,074	138,564
Segment assets	2,161,951	545,244	13,601	16,625	2,175,552	561,869
Major Customers	--	--	--	--	--	--

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 17: KEY MANAGEMENT PERSONNEL

#### Directors

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

#### Chairman – Executive

J Palermo

#### Non-executive directors

C J Quirk

J J Found

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

#### (a) Options and Rights Holdings by Directors (2010)

Director	Balance 01/07/09 (No. Options)	Granted as Remuneration (No. Options)	No. of Options Exercised	Net Change Other (No. Options)	Balance 30/06/10 (No. Options)	Total Vested 30/06/10 (No. Options)	Total Exercisable (No. Options)
J Palermo	20,000,000	4,000,000	--	(1,726,485)	22,273,515	22,273,515	22,273,515
C J Quirk	10,000,000	2,000,000	--	178,572	12,178,572	12,178,572	12,178,572
J J Found	--	2,000,000	--	--	2,000,000	2,000,000	2,000,000
<b>Total</b>	<b>30,000,000</b>	<b>8,000,000</b>	<b>--</b>	<b>(1,547,913)</b>	<b>36,452,087</b>	<b>36,452,087</b>	<b>36,452,087</b>

#### Options and Rights Holdings by Directors (2009)

Director	Balance 01/07/08 (No. Options)	Granted as Remuneration (No. Options)	No. of Options Exercised	Net Change Other (No. Options)	Balance 30/06/09 (No. Options)	Total Vested 30/06/09 (No. Options)	Total Exercisable (No. Options)
J Palermo	22,000,000	4,000,000	--	(6,000,000)	20,000,000	20,000,000	20,000,000
C J Quirk	9,900,000	2,000,000	--	(1,900,000)	10,000,000	10,000,000	10,000,000
J J Found	--	--	--	--	--	--	--
<b>Total</b>	<b>31,900,000</b>	<b>6,000,000</b>	<b>--</b>	<b>(7,900,000)</b>	<b>30,000,000</b>	<b>30,000,000</b>	<b>30,000,000</b>

The totals of remuneration paid to key management personnel of the Company during the year are as follows:

	30 June 2010 \$	30 June 2009 \$
Short term employee benefits	298,022	266,703
Post employment benefits	--	--
Share based payments	61,200	13,200
Other benefits	12,007	9,170
	<u>371,229</u>	<u>289,073</u>

**Notes to the Financial Statements for the Year Ended 30 June 2010**

**NOTE 17: KEY MANAGEMENT PERSONNEL** *(continued)*

**(b) Share Holdings by Directors (2010)**

	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)
J Palermo	1,371,875	--	--	3,004,319	4,376,194
C J Quirk	--	--	--	2,857,143	2,857,143
J J Found	--	--	--	--	--
<b>Total Directors</b>	1,371,875	--	--	5,861,462	7,233,337

**Share Holdings by Directors (2009)**

	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)
J Palermo	1,371,875	--	--	--	1,371,875
C J Quirk	--	--	--	--	--
J J Found	--	--	--	--	--
<b>Total Directors</b>	1,371,875	--	--	--	1,371,875

**(c) Transactions with key management personnel**

John Palermo, Christopher Quirk, John Found and their related entities provide consulting services to the Company as required, as detailed in Note 21.

<u>CONSOLIDATED</u>	
2010	2009
\$	\$

**NOTE 18: REMUNERATION OF AUDITORS**

Amounts received or due and receivable by the auditors of the Parent Entity for:

**Audit and review services**

- RSM Bird Cameron Partners	25,500	28,000
- Other auditors	24,803	38,044

**Other services**

- Other auditors	460	460
	50,763	66,504

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 19: 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 Company 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 Company'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.

### NOTE 20: CONTROLLED ENTITIES

	Country of Incorp	Class of Units/Shares Held	% Held by Parent Entity		Book Value of Shares Held by Parent Entity	
			2010 %	2009 %	2010 \$	2009 \$
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) Ltd	USA	Ord Shares	80%	80%	--	--
					1	1

### NOTE 21: RELATED PARTY TRANSACTIONS

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

John Palermo  
Christopher John Quirk  
John James Found

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 J J Found received payment for the provision of consultancy, secretarial, rent and administrative services under normal commercial terms and conditions.

Related parties of Mr J Palermo, being JP Corporate Pty Ltd and PAJ Investments Pty Ltd, for company secretarial, corporate advisory and premises lease respectively, Dr C J Quirk for consultancy services and Mr J J Found for consultancy services.

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

	2010 \$	2009 \$
Administration and secretarial	41,452	37,644
Rent and outgoings	22,096	21,651
	63,548	59,295

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

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 22: 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 11 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.

#### Consolidated

	Weighted Average Effective Interest Rate %		Non Interest Bearing \$		Fixed Interest Rate \$		Floating Interest Rate \$		Total \$	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Financial assets										
- Cash	6.00	3.60	--	--	1,890,000	--	73,416	357,341	1,963,146	357,341
- GST receivable			48,904	59,318	--	--	--	--	48,904	59,318
- Prepayments			20,905	22,183	--	--	--	--	20,905	22,183
- Accrued income			33,631	553	--	--	--	--	33,631	553
<b>Total financial assets</b>			<b>103,440</b>	<b>82,054</b>	<b>1,890,000</b>	<b>--</b>	<b>73,416</b>	<b>357,341</b>	<b>2,066,586</b>	<b>439,395</b>
Financial liabilities										
- Convertible notes	12.00	12.00	--	--	1,360,000	1,060,000	--	--	1,360,000	1,060,000
- Creditors and accruals			397,661	573,962	--	--	--	--	397,661	573,962
<b>Total financial liabilities</b>			<b>397,661</b>	<b>573,962</b>	<b>1,360,000</b>	<b>1,060,000</b>	<b>--</b>	<b>--</b>	<b>1,757,661</b>	<b>1,633,962</b>
Net financial (liabilities)/assets			(294,221)	(491,908)	530,000	(1,060,000)	73,146	357,341	308,925	(1,194,567)

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 22: RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Interest Rate Sensitivity

##### *Consolidated*

At 30 June 2010, 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 \$6,961 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 2010 from around 6% to 6.6% (10% decrease: 5.4%) representing a 60 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 statement of financial position and notes to the financial statements.

The Company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into.

#### 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.

	<b><u>CONSOLIDATED</u></b>	
	<b>2010</b>	<b>2009</b>
	\$	\$
Contracted maturities of liabilities at 30 June		
Payables		
- less than 30 days	397,611	573,962
Convertible notes		
- less than 6 months	--	--
- between 6 and 12 months	1,060,000	810,000
- greater than 12 months	300,000	250,000
	1,757,661	1,633,962

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 22: RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Foreign Exchange Risk

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

	2010 USD \$	2009 USD \$
Total Assets	11,652	13,380
Total Liabilities	1,498,522	1,304,509

#### 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:

	2010 Change in equity with a +/- 10% in AUD to USD \$	2009 Change in equity with a +/- 10% in AUD to USD \$
Total Assets	1,236	1,511
Total Liabilities	159,016	147,356

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

	<b>CONSOLIDATED</b>	
	2010 \$	2009 \$
Net financial assets/(liabilities)	308,925	(1,194,567)
Plant and equipment	108,966	122,474
Net assets/(liabilities)	417,891	(1,072,093)

#### Net Fair Values

For assets and other liabilities, the net fair value approximates their carrying value. The Company has no financial assets or liabilities that are readily traded on organised markets at balance date and have 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 statement of financial position and in the notes to the financial statements.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 23: LOSS PER SHARE

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

	<u>CONSOLIDATED</u>	
	2010	2009
	\$	\$
Loss for the period	(1,075,790)	(974,860)
Loss used in calculating basic loss per share	(1,075,790)	(974,860)
	<b>Number of Shares</b>	<b>Number of Shares</b>
Weighted average number of ordinary shares used in calculating basic loss per share:	704,494,453	419,767,068
Basic loss per share (cents per share)	(0.15)	(0.23)

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 24: SHARE BASED PAYMENTS

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

#### **J Palermo**

- 2,000,000 unlisted options exercisable at \$0.01 on or before 31 December 2011; and
- 2,000,000 unlisted options exercisable at \$0.015 on or before 31 December 2012.

#### **C J Quirk**

- 1,000,000 unlisted options exercisable at \$0.01 on or before 31 December 2011; and
- 1,000,000 unlisted options exercisable at \$0.015 on or before 31 December 2012.

#### **J J Found**

- 1,000,000 unlisted options exercisable at \$0.01 on or before 31 December 2011; and
- 1,000,000 unlisted options exercisable at \$0.015 on or before 31 December 2012.

#### **Employees and Consultants**

- 1,350,000 unlisted options exercisable at \$0.01 on or before 31 December 2011; and
- 1,350,000 unlisted options exercisable at \$0.015 on or before 31 December 2012.

#### **Celtic Capital Pty Ltd, Novus Capital Limited and Cunningham Peterson Sharbanee Securities Pty Ltd**

- 30,000,000 unlisted options exercisable at \$0.015 on or before 30 June 2011 being consideration for capital raising costs totalling \$216,000.

#### *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.

The model inputs for options granted during the year ended 30 June 2010 included:

- (a) options are granted for no consideration (2009: Nil)
- (b) exercise price: \$0.01 and \$0.015 (2009: \$0.01 and \$0.015)
- (c) grant date: 6 November 2009, 18 November 2009 and 5 February 2010 (2009: 28 November 2008)
- (d) expiry date: 30 June 2011, 31 December 2011 and 31 December 2012 (2009: 31 December 2011 and 31 December 2012)
- (e) share price at grant date: \$0.01, \$0.009 and \$0.012 (2009: \$0.003)
- (f) expected price volatility of the Company's shares: 150% (2009: 150%)
- (g) risk-free interest rate: 4.6375% (2009: 6.5%)

**Notes to the Financial Statements for the Year Ended 30 June 2010**

**NOTE 24: SHARE BASED PAYMENTS** *(continued)*

The shared-based payment expense for the year was \$295,424 (2009: \$13,200).

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

	<b>Weighted average exercise price 2010</b>	<b>Number of Options 2010</b>	<b>Weighted average exercise price 2009</b>	<b>Number of Options 2009</b>
Outstanding at 1 July	\$0.04	51,500,000	\$0.07	284,836,524
Expired during the year	--	--	\$0.05	(239,336,524)
Forfeited during the year	--	--	--	--
Exercised during the year	\$0.01	(2,800,000)	--	--
Issued during the year	\$0.015	133,252,800	--	--
Granted during the year	\$0.0125	10,700,000	\$0.0125	6,000,000
Outstanding at 30 June	\$0.02	192,652,800	\$0.04	51,500,000
Vested and exercisable at 30 June	\$0.02	192,652,800	\$0.04	51,500,000

The options outstanding at 30 June 2010 have an exercise price in the range of \$0.01 to \$0.15 and a weighted average remaining contractual life of 1 year.

## Notes to the Financial Statements for the Year Ended 30 June 2010

### NOTE 25: PARENT ENTITY DISCLOSURES

#### (a) Financial Position

	2010	2009
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	1,928,341	341,210
Other current assets	82,017	49,200
<b>Total Current Assets</b>	2,010,358	390,410
<b>Non Current Assets</b>		
Plant and equipment	8,227	8,827
Other financial assets	1	1
<b>Total Non Current Assets</b>	8,228	8,828
<b>TOTAL ASSETS</b>	2,018,586	399,238
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	210,068	277,353
Interest bearing liabilities	1,060,000	810,000
<b>Total Current Liabilities</b>	1,270,068	1,087,353
<b>Non Current Liabilities</b>		
Interest bearing liabilities	300,000	250,000
<b>Total Non Current Liabilities</b>	300,000	250,000
<b>TOTAL LIABILITIES</b>	1,570,068	1,337,353
<b>NET ASSETS/(LIABILITIES)</b>	448,518	(938,115)
<b>EQUITY</b>		
Issued capital	23,182,479	20,913,394
Reserves	1,008,350	712,926
Accumulated losses	(23,742,311)	(22,564,435)
<b>TOTAL EQUITY/(DEFICIENCY IN EQUITY)</b>	448,518	(938,115)

#### (b) Financial Performance

	2010	2009
	\$	\$
Loss for the year	(1,177,876)	(788,727)
Other comprehensive income	--	--
<b>TOTAL COMPREHENSIVE LOSS</b>	(1,177,876)	(788,727)

#### (c) Guarantees

Pharmanet Group Limited has not entered into any guarantees in relation to the debts of its subsidiaries.

#### (d) Other Commitments and Contingencies

Pharmanet Group Limited has no commitments to acquire property, plant and equipment and has no contingent liabilities.

## ASX Additional Information

### 1. QUOTED SECURITIES

#### (a) ORDINARY FULLY PAID SHARES

##### (i) DISTRIBUTION OF SHAREHOLDERS AS AT 14 SEPTEMBER 2010:

SPREAD OF HOLDINGS	NO. OF HOLDERS	NO. OF SHARES	PERCENTAGE OF ISSUED CAPITAL %
1 - 1,000	140	63,881	0.01
1,001 - 5,000	240	760,576	0.09
5,001 - 10,000	151	1,258,783	0.15
10,001 - 100,000	496	25,315,715	2.96
100,001+	641	827,444,227	96.79
	<u>1,668</u>	<u>854,843,182</u>	<u>100.00</u>

The number of shareholdings held in less than marketable parcels is 850.

##### (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 Corp PL	49,168,294	5.75
2. Primelane PL	34,710,595	4.06
3. Haydos Corp PL	30,000,000	3.51
4. Topaze Entps PL	20,228,572	2.37
5. Sacha Inv PL	18,633,436	2.18
6. Classic Roofing PL	18,000,000	2.11
7. Cityscan PL	16,447,412	1.92
8. Coastpark PL	13,276,478	1.55
9. Regas, S & V	11,700,000	1.37
10. Bradshaw Muir & Assoc PL	11,204,286	1.31
11. Nebel Inv PL	11,000,000	1.29
12. Blackmore, M	10,900,000	1.28
13. Ying, L	9,950,000	1.16
14. Chambers Eng PL	9,000,000	1.05
15. Capraro, Y & U	8,656,000	1.01
16. Skliris, A & M	8,100,000	0.95
17. Jin, Y	8,000,000	0.94
18. Wells, M	7,889,475	0.92
19. Raceland Hldgs PL	7,600,000	0.89
20. Kings Park Nom PL	7,514,831	0.88
	<u>311,979,379</u>	<u>36.50</u>

##### (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 14 September 2010:

Name	No.	Ordinary Shares %
Monarch Corporation Pty Ltd	49,168,294	5.75

**ASX Additional Information (continued)**

**1. QUOTED SECURITIES (continued)**

**(b) OPTIONS**

As at 14 September 2010 there existed the following quoted options:

**(i) 133,252,800 OPTIONS EXERCISABLE AT \$0.015 EACH BEFORE 30 JUNE 2011**

SPREAD OF HOLDINGS	NO. OF HOLDERS	NO. OF SHARES	PERCENTAGE OF ISSUED CAPITAL %
1 - 1,000	33	18,473	0.01
1,001 - 5,000	50	148,109	0.11
5,001 - 10,000	39	284,963	0.22
10,001 - 100,000	110	4,118,834	3.09
100,001+	109	128,682,421	96.57
	<b>341</b>	<b>133,252,800</b>	<b>100.00</b>

**2. UNQUOTED SECURITIES**

**(a) OPTIONS**

As at 14 September 2010 there existed the following unquoted options:

**(i) 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
	<b>12,000,000</b>	<b>100.00</b>

**(ii) 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
	<b>13,500,000</b>	<b>100.00</b>

**(iii) 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
	<b>12,000,000</b>	<b>100.00</b>

**ASX Additional Information (continued)**

**2. UNQUOTED SECURITIES (continued)**

**(iv) 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
	4,000,000	100.00

**(v) 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
	4,000,000	100.00

**(vi) 5,550,000 OPTIONS EXERCISABLE AT \$0.01 EACH BEFORE 31 DECEMBER 2011**

Name	Options	%
Dolphin Technology Pty Ltd <The Dolphin A/c>	2,000,000	36.04
Hamelin Nominees Pty Ltd	2,000,000	36.04
J Found	1,000,000	18.01
C Worth	300,000	5.41
JEB Holdings Pty Ltd	250,000	4.50
	5,550,000	100.00

**(vii) 8,350,000 OPTIONS EXERCISABLE AT \$0.015 EACH BEFORE 31 DECEMBER 2012**

Name	Options	%
Dolphin Technology Pty Ltd <The Dolphin A/c>	4,000,000	47.90
Hamelin Nominees Pty Ltd	2,000,000	23.95
J Found	1,000,000	11.97
C Worth	500,000	5.99
JEB Holdings Pty Ltd	250,000	2.99
M Bulich	200,000	2.40
P Powers	200,000	2.40
Topaze Enterprises Pty Ltd	200,000	2.40
	8,350,000	100.00

**(viii) 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 2010 are detailed in the Directors' Report.

## Corporate Governance Statement

Pharmanet Group Limited (“the Company”) is committed to implementing and maintaining the highest standards of corporate governance. The primary responsibility of the Board of the Company (“the Board”) is to represent and advance the Company’s shareholders’ (“the Shareholders”) interests and to protect the interests of all stakeholders. To fulfill this role, the Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for its employees and monitoring achievement of these goals.

The Company adopts the ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations* released in 2007 (“the Recommendations”) to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

The Company’s compliance with the Revised Corporate Governance Principles and Recommendations is summarised in the table below:

	ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>		ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>
Recommendation 1.1		✓	Recommendation 4.3		✓
Recommendation 1.2		✓	Recommendation 4.4		✓
Recommendation 1.3	✓		Recommendation 5.1	✓	
Recommendation 2.1	✓		Recommendation 5.2	✓	
Recommendation 2.2		✓	Recommendation 6.1		✓
Recommendation 2.3		✓	Recommendation 6.2		✓
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2		✓
Recommendation 2.6	✓		Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4	✓	
Recommendation 3.2	✓		Recommendation 8.1		✓
Recommendation 3.3	✓		Recommendation 8.2	✓	
Recommendation 4.1		✓	Recommendation 8.3		✓
Recommendation 4.2		✓			

<sup>1</sup> Indicates where the Company has followed the Principles & Recommendations and summarised those practices below.

<sup>2</sup> Indicates where the Company has provided an “if not, why not” disclosure below.

In acknowledging the Key Messages of the first review of the corporate governance reporting under the Revised Corporate Governance Principles and Recommendations by ASX Markets Supervision (“ASXMS”), the Company has provided additional disclosure for each of the 27 recommendations. Where the Company has departed from a recommendation, the Company has provided substantive reasons and refers to material containing additional disclosure, as relevant.

The “if not, why not” disclosure of the Company is summarised in the table below:

## Corporate Governance Statement *(continued)*

Recommendation	Explanation of Departure from Recommendation
1.1, 1.2	The Company has not appointed any senior executives (excluding the Company Secretary). Therefore, full disclosure of the functions delegated to senior executives, and the evaluation of executives' performance under Recommendation 1.1 and 1.2 is not required.
2.2	The role of the Chairperson is undertaken by an executive Director who also occupies the role as Company Secretary and Chief Executive Officer ("the CEO") equivalent and is, therefore, not independent.
2.3	The Company has not appointed a CEO. However, the functions of the CEO are undertaken by the executive Director, who also occupies the roles of Chairperson and Company Secretary.
2.4	Owing to the size and composition of the Board, it is not appropriate to establish an independent nomination committee, or to establish a formal nomination policy.
4.1, 4.2, 4.3, 4.4	Owing to the size and composition of the Board, it is not appropriate to establish an independent audit committee, or to establish a formal audit policy.
6.1, 6.2	Owing to the size and composition of the Board, it is not appropriate to establish a formal policy to promote effective communication with Shareholders and encourage their participation at meetings.
7.2	As the Company has not appointed senior management, the Board assumes responsibility for the design and implementation of risk management and internal control systems.
8.1, 8.3	Owing to the size and composition of the Board, it is not appropriate to establish an independent remuneration committee. Details of the Company's remuneration policy are set out in the Remuneration Report in the Directors' Report.

It is noted that as the Company's activities develop in size, nature and scope, the Company's corporate governance policies and processes will continue to be reviewed and improved as resources permit.

### 1. BOARD OF DIRECTORS

#### 1.1. Role of Board

The Board is responsible for setting the strategic direction and establishing and overseeing the policies and financial position of the Company, and monitoring the business and affairs on behalf of its Shareholders, by whom the directors of the Company ("the Directors") are elected and to whom they are accountable.

Further, the Board takes specific responsibility for:

- Protecting and enhancing Shareholder value;
- Formulating, reviewing and approving the objectives and strategic direction of the Company;
- Approving all significant business transactions including acquisitions, divestments and capital expenditure;
- Monitoring the financial performance of the Company by reviewing and approving budgets and monitoring results;
- Ensuring that adequate internal control systems and procedures (including financial, risk management, occupational health and safety, environmental management systems and procedures) exist and that compliance with these systems and procedures is maintained;

## Corporate Governance Statement *(continued)*

### 1. BOARD OF DIRECTORS *(continued)*

#### 1.1. Role of Board *(continued)*

- Identifying significant business risks and ensuring that such risks are adequately managed;
- Appointing Directors to the Board;
- Monitoring and reviewing the performance and remuneration of Directors;
- Monitoring and evaluating the Company Secretary's performance;
- Establishing and maintaining appropriate ethical standards; and
- Evaluating and, where appropriate, adopting with or without modification, the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

The Board is responsible for establishing a culture and framework that supports corporate governance, including creating the strategic direction for the Company, establishing goals for employees and the Company Secretary and monitoring the achievement of these goals.

The Company has a formal Board Charter, which is available from the Company on request. In broad terms, the Board is accountable to the Shareholders and must ensure that the Company is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board within the governance structure of the Company and its related bodies corporate (as defined in the Corporations Act).

As at the date of this Annual Report, the Company has not employed any senior executives; therefore, disclosure under Recommendations 1.2 and 1.3 is not required.

#### 1.2. Terms of Office of Directors

The constitution of the Company ("the Constitution") specifies that one third of the Directors, excluding the Managing Director, shall rotate on an annual basis. It is noted that, as at the date of this Annual Report, the Company has not appointed a Managing Director.

#### 1.3. Composition of the Board and Independence

The Directors in office at the date of this Annual Report are:

Name	Position	Independent	Expertise
Mr John Palermo	Executive Director	No	Refer to Directors' Report
Dr Christopher John Quirk	Non-executive Director	Yes	Refer to Directors' Report
Mr John James Found	Non-executive Director	Yes	Refer to Directors' Report

The Board considers the majority of Directors to be independent, commensurate with Recommendation 2.1. Mr John Palermo is not considered to be independent, owing to his dual position with the Company as executive Director, Company Secretary and CEO equivalent. Notwithstanding their small shareholdings, Messrs Quirk and Found are considered to be independent as they are not substantial shareholders or otherwise related to, or engaged by, the Company in any other capacity.

Owing to the size and structure of the Company the roles of the Chairperson and CEO equivalent are occupied by the same Director.

## Corporate Governance Statement (*continued*)

### 1. BOARD OF DIRECTORS (*continued*)

#### 1.3. Composition of the Board and Independence (*continued*)

The Company has not established a formal policy for the nomination and appointment of Directors. However, the composition of the Board is determined using the following principles:

- The Board comprises three (3) Directors; however, this number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified; and
- The Board should comprise Directors with a broad range of expertise.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board selects a panel of candidates with the appropriate expertise and experience. Potential candidates are identified by the Board with advice from an external consultant, if necessary. The Board then appoints the most suitable candidate who must stand for election at a general meeting of Shareholders.

#### 1.4. Monitoring of Board Performance

In accordance with Recommendation 2.5, the Directors' performance is reviewed by the Chairperson on an ongoing basis. In the event that any Director's performance is considered to be unsatisfactory, that Director will be asked to retire from the Board. The Chairperson's performance is reviewed by the remaining two Board members.

The Company has established firm guidelines to identify the measurable and qualitative indicators of the Directors' performance during the course of the year ("the Guidelines"). Those Guidelines include minimum requirements for attendance at all Board and Shareholder meetings, whereby the non-attendance of a Director at more than three consecutive meetings without reasonable excuse will result in that Director's position being reviewed.

#### 1.5. Independent Professional Advice

Each Director has the right, in connection with his/her duties and responsibilities as a Director, to seek independent professional advice at the Company's expense. However, prior approval of the Chairperson is required, which will not be unreasonably withheld.

#### 1.6. CEO and CFO Attestations

As at the date of this Annual Report, the Company has not appointed a CEO or chief financial officer ("the CFO"). Due to the size and scale of the Company's operations, these roles are currently performed by the Board, specifically Mr John Palermo who is primarily responsible for financial matters in relation to the Company.

In lieu of the CEO and CFO's attestations, Mr John Palermo certifies to the Board that:

- The Company's financial reports are complete and present a true and fair view, in all material aspects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards ("the Executive Director's Statement"); and
- The Executive Director's Statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating effectively and efficiently in all material aspects.

## Corporate Governance Statement (*continued*)

### 2. BOARD COMMITTEES

#### 2.1. Nomination Committee

Owing to its size and composition, the Company has not established a separate nomination committee in accordance with Recommendation 2.4.

The Board considers that the selection and appointment of Directors should be the responsibility of the full Board and that no benefits or efficiencies are to be gained by delegating this function to a separate committee. In any event, the Board consists of only three members, which is the minimum composition recommended for a nomination committee pursuant to Recommendation 2.4.

The Board does not have a separate charter for its nomination and succession planning functions; however, the responsibilities of the Board ordinarily include the nomination functions described in section 1.3 of this Corporate Governance Statement.

#### 2.2. Audit Committee

Owing to its size and composition, the Company has not established a separate audit committee in accordance with Recommendation 4.1.

The Board considers that the selection and appointment of Directors should be the responsibility of the full Board and that no benefits or efficiencies are to be gained by delegating this function to a separate committee. In any event, the Board consists of only three members, which is the minimum number recommended for an audit committee pursuant to Recommendation 4.2.

The Directors are all financially literate. Mr John Palermo, Director and Company Secretary, holds financial qualifications and is a Chartered Accountant. The Directors have, together, accumulated sufficient technical expertise in other directorships to provide valuable insight and technical knowledge, allowing the Board to verify and safeguard the integrity of the Company's financial statements.

Preserving the spirit of Principle 4, the external auditor has full access to the Board throughout the year. The Board does not have a separate charter for its audit functions; however, the responsibilities of the Board (as set out in section 1.1 of this Corporate Governance Statement) ordinarily include:

- Reviewing internal controls and recommending enhancements;
- Monitoring compliance with Corporations Act 2001, Securities Exchange Listing Rules, matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission and financial institutions;
- Improving the quality of the accounting function;
- Reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by the Company; and
- Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Board reviews the performance of the external auditors on an annual basis and nomination of auditors is as the discretion of the Board.

## Corporate Governance Statement (*continued*)

### 2. BOARD COMMITTEES (*continued*)

#### 2.3. Remuneration Committee

Owing to its size and composition, the Company has not established a separate remuneration committee in accordance with Recommendation 8.1.

The Board considers that the responsibility for the selection and appointment of Directors can be adequately discharged by the Board and that no benefits or efficiencies are to be gained by delegating this function to a separate committee. In any event, the Board consists of only three members, which is the minimum composition recommended for an audit committee pursuant to Recommendation 8.1.

The Board does not have a separate charter for its remuneration functions; however, the Board is vested with the responsibility to review remuneration packages and policies (including remuneration, incentives, termination policies, and superannuation arrangements) applicable to each of the Directors and the Company Secretary. Remuneration levels are competitively set to attract the most qualified and experienced Directors for the benefit of the Company and Shareholders. The Board obtains independent advice on the appropriateness of remuneration packages.

In making decisions with respect to appropriate remuneration and incentive policies for executive Directors and the Company Secretary, the Board's objectives are to:

- Motivate executive Directors and the Company Secretary to pursue the long term growth and success of the Company within an appropriate control framework;
- Demonstrate a clear correlation between key performance and remuneration; and
- Align the interests of key leadership with the long-term interests of the Company's Shareholders.

Shareholder approval is also required to determine the maximum aggregate remuneration for non-executive Directors. The maximum aggregate remuneration approved for non-executive Directors is currently set at \$250,000 per annum. Non-executive Directors are not provided with retirement benefits other than statutory superannuation entitlements and are not entitled to participate in equity-based remuneration schemes of the Company.

Full disclosure of the Company's remuneration philosophy and framework, and the remuneration received by Directors in the current period, is set out in the remuneration report, which is contained within the Directors' Report ("the Remuneration Report"). This Remuneration Report clearly distinguishes the remuneration provided for non-executive Directors and executive Directors.

### 3. ETHICAL STANDARDS

The Company has established a formal Code of Conduct ("the Code") as per Recommendation 3.1, which is available from the Company on request.

The Code outlines the Company's expectations of Directors, the Company Secretary and employees and its related bodies corporate in relation to their behaviour and the way business is conducted in the workplace on a range of issues. Directors, the Company Secretary and employees are committed to acting with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. Directors, the Company Secretary and employees must conduct themselves in a manner consistent with the expectations of its stakeholders, commensurate with prevailing community and corporate standards, and must take responsibility for upholding the Company's legal obligations. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

## Corporate Governance Statement (*continued*)

### 4. DIRECTORS' DEALINGS IN COMPANY SHARES

The Company has implemented a formal trading policy as required by Recommendation 3.2 entitled *Guidelines for Dealing in Securities*. This policy applies to Directors, the Company Secretary, employees and contractors of the Company, and is available from the Company on request.

In addition, Directors must notify the Australian Securities Exchange of any acquisition or disposal of shares by lodgement of a Notice of Director's Interests. Board policy is to prohibit Directors, the Company Secretary and employees from dealing in shares of the Company whilst in possession of price sensitive information.

### 5. CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company has implemented a formal Continuous Disclosure and Information Policy as suggested in Recommendation 5.1, which is available from the Company on request. This policy was introduced to ensure the Company achieves compliance with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules.

The Board aims to ensure that the Shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to Shareholders through:

- the Annual Report which is distributed to all Shareholders;
- half-yearly reports, quarterly reports and all ASX announcements which are posted on the Company's website;
- the Annual General Meeting and other meetings so called to obtain Shareholder approval for Board action as appropriate; and
- compliance with the continuous disclosure requirements of the ASX Listing Rules.

The Company's auditor is required to be present, and be available to Shareholders, at the Annual General Meeting.

### 6. RESPECT THE RIGHTS OF SHAREHOLDERS

The Company has a formal privacy policy ("the Privacy Policy"), which is available from the Company on request. The Company is committed to respecting the privacy of Shareholders' personal information. The Privacy Policy sets out the Company's personal information management practices and covers the application of privacy laws, personal information collection, the use and disclosure of personal information, accessing and updating Shareholders' information and the security of that information.

The Board has not adopted any additional codes of conduct or communications policies to promote effective communication with Shareholders and encourage their participation at general meetings in accordance with Recommendation 6.1. This is because the Board considers, in the context of the size and nature of the Company, that a communications policy would not improve the effective exercise of the Shareholders' rights at general meetings.

Nevertheless, the Company informally adopts several of the suggestions in Recommendation 6, including communicating to Shareholders electronically, and uploading its formal codes and policies to the Company's website.

## Corporate Governance Statement (*continued*)

### 7. RECOGNISE AND MANAGE RISK

Due to the size and scale of the Company and the Board, a separate committee has not been established to oversee risk management. However, the Board has established a formal risk management policy to recognise and manage risk, as recommended by Recommendation 7.1. This risk management policy is available from the Company on request.

Risk management is a priority for the Board who remains vigilant in creating a culture, processes and structures directed to optimising the Company's opportunities whilst minimising and managing potential material business risks.

Risk oversight, management and internal control are dealt with on a continuous basis by the Board, with differing degrees of involvement from various Directors and the Company Secretary, depending upon the nature and materiality of the matter.

The Board continuously reviews material business risks to identify whether the system for identifying and reporting risks is being managed effectively. Determined areas of risk which are regularly considered include:

- Performance and funding of research and development activities;
- Budget control and asset protection;
- Status of intellectual property;
- Compliance with government laws and regulations;
- Safety and the environment;
- Continuous disclosure obligations; and
- Sovereign risk.

As the Company has not appointed a CEO (or equivalent) or CFO (or equivalent), an assurance under s295A of the Corporations Act has been made by Mr John Palermo, who performs the function of the CEO for this purpose.

The Annual Report sets out the categories of financial risk applicable to the Company, which are contained in the Notes to the Financial Statements in the Annual Report.