

Pharmanet Group Limited and controlled entities

ABN 98 006 640 553

HALF-YEAR INFORMATION – 1 JULY 2012 TO 31 DECEMBER 2012

LODGED WITH THE ASX UNDER LISTING RULE 4.2A.

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual financial report for the year ended 30 June 2012 and any public announcements made by Pharmanet Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Pharmanet Group Limited and controlled entities

ABN 98 006 640 553

HALF-YEAR INFORMATION – 1 JULY 2012 TO 31 DECEMBER 2012

LODGED WITH THE ASX UNDER LISTING RULE 4.2A.3.

Key Information – Results for Announcement to the Market

	\$	% Increase/(Decrease) over Previous Corresponding Period
Revenue and other income	732,698	773.26
Loss for the period	(910,122)	(42.71)
Loss attributable to members of the parent entity	(890,481)	(43.37)
Loss attributable to non-controlling interest	(19,641)	21.96

The previous corresponding period is the half-year ended 31 December 2011.

The Company does not propose to pay dividends.

The financial report has been subject to a review by RSM Bird Cameron Partners and the financial report is not subject to dispute or qualification.

	Current Period	Previous Corresponding Period
Basic earnings per share (cents)	(0.06)	(0.13)
Diluted earnings per share (cents)	(0.06)	(0.13)
Net tangible assets per share (cents)	0.01	0.04

The directors present their interim financial report on the consolidated entity consisting of Pharmanet Group Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2012.

Directors

The following persons were directors of Pharmanet Group Limited during the whole of the half-year and up to the date of this interim financial report unless otherwise noted:

John Palermo
Christopher John Quirk
John James Found

Review of Operations

Sales and Marketing

Unit volume sales of ThermoLIFE[®] cream in the six months to 31st December was a record 20,344 up 124% vs. the previous six months volume of 9,086 units. The growth was due to an intensive consumer marketing and promotional campaign predominantly in print and radio and for the last month in selected television advertising on the East Coast.

ThermoLIFE[®] cream now has a presence in all of the states and is carried by all three of the national pharmacy wholesalers – Sigma, Symbion and API and in a number of national banner groups, the most prominent being Chemist Warehouse. Distribution has been achieved in more than 1,900 pharmacies with more focus placed on account management.

Marketing for the half year was focused on implementing effective radio/print advertising, effective point of sale materials and updating and streamlining the www.thermalife.com.au website and making social media - Facebook more effective. New print and new radio advertisements have been implemented nationally and a regional test market for television advertising was run in the last two months of the reporting period.

ThermoLIFE[®] cream packaging has been upgraded following key consumer research. The new packaging better communicates a much more therapeutic active and makes the product a fundamental part of the topical pain relief category. The pack graphics, colour scheme and certain copy claims have been upgraded and are currently before the TGA for approval.

Promotion to medical groups and in the professional press has been undertaken with the appointment of Tonality Group – part of the Hammond and Thackeray Advertising who are experienced and successful in pharmaceutical promotion to both consumers and health professionals.

Product Supply and Manufacturing

Variable product quality issues at the contract manufacturer have been resolved through the technical and engineering leadership of our Product Supply Manager. Wastage has been kept to an industry minimum while stock replenishment and inventory levels have kept pace with increased sales. Cost-saving programs have been implemented primarily through decreased analytical costs and increases in manufacturing efficiency.

Additional cost savings are being sourced through improved manufacturing of the Nutracel active ingredient in cooperation with the active ingredient supplier. Reagent costs for the production of Nutracel are high and a new supplier of one of the key reagents has been validated in the provision of cost effective materials.

R&D / Product Development

ThermoLIFE[®] Active Gel has been successfully listed with the TGA. The current focus is on completing manufacturing validation and establishment of the quality program as a condition of the product licence. Packaging has been finalised and in production. A launch plan for Active Gel will be instituted and presentations to buying groups made ahead of the national launch. All early stage pilot work has been successful and full scale manufacturing validation is being completed.

Review of Operations (continued)

R&D / Product Development (continued)

Nutrancel protein fractionation and assay development continues to be a primary focus of the Group. Identification and sequencing of the active peptide or mixture of active peptides along with assay development required for QA identification and potency measurement is a major milestone in the finalisation of a ThermoLIFE[®] drug master file. Future collaborations are being pursued with international proteomics groups as the Company looks to extend its international licencing opportunities with early stage investors and companies already in the therapeutic protein space.

External funding opportunities and R&D tax concessions are being actively pursued to ensure cost containment in the R&D program. Commercialisation grant applications are being prepared by a recently appointed external consultant and will be submitted to Commercialisation Australia – an Australian Government initiative in an effort to secure external funding for a number of new product opportunities derived from our research into peptides.

Auditor's Independence Declaration

The Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is included within this financial report.

This interim financial report is made in accordance with a resolution of the board of directors.



John Palermo
Director

Perth
27th February 2013

Consolidated Statement of Comprehensive Income
for the half-year ended 31 December 2012

	31 December 2012	31 December 2011
	\$	\$
Revenue	284,100	24,086
Other income	448,598	59,818
Net foreign exchange (losses)/gains	(770)	--
Changes in inventories	(114,736)	(5,037)
Manufacturing and distribution costs	(454,130)	(465,126)
Borrowing costs	(69,672)	(35,622)
Depreciation expense	(16,250)	(23,159)
Administration fees and administration benefits expenses	(110,205)	(152,746)
Analysis and product testing	(18,274)	(25,883)
Auditor's remuneration	(19,195)	(18,390)
Company secretarial expenses	(15,000)	(15,000)
Consulting and consultant's benefits expenses	(249,557)	(508,621)
Directors and employees benefits expense	(327,045)	(169,731)
Legal expenses	(12,671)	(9,965)
Patent expenses	(27,531)	(35,310)
Product samples and consumables	(9,317)	(5,833)
Rent premises	(32,176)	(33,932)
Travel and accommodation expenses	(10,159)	(26,757)
Write down of loans	--	(497)
Other expenses	(156,132)	(140,821)
Loss before income tax	(910,122)	(1,588,526)
Income tax	--	--
Loss for the period	(910,122)	(1,588,526)
Other comprehensive (loss)/income		
<i>Items that may be reclassified subsequently to operating result</i>		
Currency translation differences	(28)	(993)
Income tax relating to components of other comprehensive income for the period	--	--
Other comprehensive (loss)/income for the period	(28)	(993)
Total comprehensive loss for the period	(910,150)	(1,589,519)
Loss attributable to:		
Members of the parent entity	(890,481)	(1,572,421)
Non-controlling interest	(19,641)	(16,105)
	(910,122)	(1,588,526)
Total comprehensive loss attributable to:		
Members of the parent entity	(890,509)	(1,573,414)
Non-controlling interest	(19,641)	(16,105)
	(910,150)	(1,589,519)
Basic and diluted losses per share (cents)	(0.06)	(0.13)

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

Consolidated Statement of Financial Position
as at 31 December 2012

	Note	31 December 2012 \$	30 June 2012 \$
Current Assets			
Cash and cash equivalents		1,206,157	1,332,131
Trade and other receivables		132,291	256,039
Inventories		219,202	333,937
Total Current Assets		1,557,650	1,922,107
Non-Current Assets			
Plant and equipment		165,430	174,236
Total Non-Current Assets		165,430	174,236
Total Assets		1,723,080	2,096,343
Current Liabilities			
Trade and other payables		267,000	636,868
Interest bearing liabilities	3	1,360,000	1,360,000
Total Current Liabilities		1,627,000	1,996,868
Total Liabilities		1,627,000	1,996,868
Net Assets		96,080	99,475
Equity			
Issued capital	4	26,781,047	26,099,698
Reserves		1,648,301	1,422,923
Accumulated losses		(28,228,103)	(27,337,622)
Total parent equity interest		201,245	184,999
Non-controlling interest		(105,165)	(85,524)
Total Equity		96,080	99,475

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

Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2012

	Ordinary Issued Capital	Foreign Currency Translation Reserve	Share Based Payments Reserve	Accumulated Losses	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 01/07/2011	24,328,178	(2,398)	1,161,550	(25,251,818)	(24,064)	211,448
Loss for the period	--	--	--	(1,572,421)	(16,105)	(1,588,526)
Foreign currency translation differences	--	(993)	--	--	--	(993)
Total comprehensive loss for the period	--	(993)	--	(1,572,421)	(16,105)	(1,589,519)
Transactions with owners recorded directly into equity						
Shares issued during the period	2,198,800	--	--	--	--	2,198,800
Options issued during the period	--	--	240,000	--	--	240,000
Performance rights re-valued during the period	--	--	3,918	--	--	3,918
Transaction costs	(427,280)	--	--	--	--	(427,280)
Balance at 31/12/2011	26,099,698	(3,391)	1,405,468	(26,824,239)	(40,169)	637,367
Balance at 01/07/2012	26,099,698	(4,152)	1,427,075	(27,337,622)	(85,524)	99,475
Loss for the period	--	--	--	(890,481)	(19,641)	(910,122)
Foreign currency translation differences	--	(28)	--	--	--	(28)
Total comprehensive loss for the period	--	(28)	--	(890,481)	(19,641)	(910,150)
Transactions with owners recorded directly into equity						
Shares issued during the period	993,805	--	--	--	--	993,805
Options issued during the period	--	--	200,000	--	--	200,000
Performance rights re-valued during the period	--	--	25,406	--	--	25,406
Transaction costs	(312,456)	--	--	--	--	(312,456)
Balance at 31/12/2012	26,781,047	(4,180)	1,652,481	(28,228,103)	(105,165)	96,080

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

Consolidated Statement of Cash Flows
for the half-year ended 31 December 2012

	31 December 2012	31 December 2011
	\$	\$
Cash flows from operating activities		
Receipts from customers	846,625	13,807
Payments to suppliers and employees	<u>(1,800,208)</u>	<u>(1,791,617)</u>
	(953,583)	(1,777,810)
Interest received	28,267	35,871
Borrowing costs	<u>(69,672)</u>	<u>(35,622)</u>
Net cash flows used in operating activities	<u>(994,988)</u>	<u>(1,777,561)</u>
Cash flows from investing activities		
Payments for plant and equipment	(12,307)	(6,760)
Other	<u>--</u>	<u>(497)</u>
Net cash flow used in investing activities	<u>(12,307)</u>	<u>(7,257)</u>
Cash flows from financing activities		
Proceeds from issue of shares and options	993,805	2,120,000
Payment of costs relating to issue of shares and options	(112,456)	(187,280)
Other	<u>--</u>	<u>44,625</u>
Net cash flows provided by financing activities	<u>881,349</u>	<u>1,977,345</u>
Net (decrease)/increase in cash and cash equivalents held	(125,946)	192,527
Cash and cash equivalents at the beginning of the reporting period	1,332,131	1,885,040
Effect of exchange rate changes on cash holdings	<u>(28)</u>	<u>(993)</u>
Cash and cash equivalents at the end of the reporting period	<u>1,206,157</u>	<u>2,076,574</u>

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

Note 1: Basis of Preparation

The half-year consolidated financial report is a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard AASB 134: Interim Financial Reporting. Compliance with AASB 134 ensures that the financial report and notes also comply with International Financial Reporting Standard IAS 34: Interim Financial Reporting.

It is recommended that this consolidated financial report be read in conjunction with the annual financial report for the year ended 30 June 2012 and any public announcements made by Pharmanet Group Limited and its controlled entities during the half-year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001*.

The half-year consolidated financial report does not include full disclosures of the type normally included in annual financial reports.

Except for cash flow information, the half-year consolidated financial report has been prepared on an accruals basis and is based on historical costs.

The accounting policies have been consistently applied by the consolidated entity and are consistent with those in the June 2012 annual financial report, except in relation to the matters disclosed below:

New and Revised Accounting Standards and Interpretations

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

The consolidated entity has elected not to early adopt any new standards or interpretations.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the consolidated entity incurred a loss of \$910,122 and had net cash outflows from operating activities of \$994,988 for the half-year ended 31 December 2012. As at that date, the consolidated entity had net current liabilities of \$69,350.

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- The consolidated entity at 31 December 2012 has cash of \$1,206,157;
- Further commercial exploitation of the Company's products; and
- Ability to reduce operational cost levels to conserve cash if and when required.

Note 2: 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, manufacture and distribution of pharmaceutical products.

Geographical

	Australia		USA		Consolidated	
	December		December		December	
	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$
Total revenue	732,698	83,904	--	--	732,698	83,904
Segment assets	1,709,915	2,572,130	13,165	21,293	1,723,080	2,593,423
Major Customers	--	--	--	--	--	--

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2012
(continued)

Note 3: Interest Bearing Liabilities

	Consolidated	
	31 December	30 June
	2012	2012
	\$	\$
Current		
Convertible notes - unsecured	1,360,000	1,360,000

(a) Terms and conditions

Convertible notes issued:

Issue Date	Amount	Interest Rate	Convertible (see notes)
1 April 2004	200,000	12% per annum	15 June 2013 ⁽ⁱ⁾
31 March 2008	200,000	12% per annum	30 April 2013 ⁽ⁱⁱ⁾
1 June 2008	410,000	12% per annum	1 June 2013 ⁽ⁱⁱⁱ⁾
31 December 2008	250,000	12% per annum	31 December 2013 ^(iv)
5 February 2010	300,000	12% per annum	5 February 2014 ^(v)
	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.

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 2012, as they were extended for a further 12 months.
- (ii) The convertible notes issued on 31 March 2008 were not converted on 30 April 2012. \$50,000 of the notes was extended for a further 12 months.
- (iii) The convertible notes issued on 1 June 2008 were not converted on 1 June 2012.
- (iv) The convertible notes issued on 31 December 2008 were not converted on 31 December 2012. \$60,000 of the notes was extended for a further 12 months.
- (v) The convertible notes issued on 5 February 2010 were not converted on 5 February 2013. \$50,000 of the notes was extended for a further 12 months.

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2012
(continued)

Note 4: Issued Capital

	Consolidated	
	31 December 2012	30 June 2012
(a) Issued capital	\$	\$
1,997,469,374 Ordinary shares fully paid (30/06/12: 1,490,597,611)	26,781,047	26,099,698
(b) Movements in ordinary share capital	Number of Shares	\$
01/07/12 Opening balance	1,490,597,611	26,099,698
02/10/12 Exercise of options	5,893	73
09/11/12 Non-renounceable rights issue	496,865,870	993,732
16/11/12 Exercise of performance rights	10,000,000	--
Less: costs associated with the issue of shares		(312,456)
31/12/12 Closing balance	1,997,469,374	26,781,047

Note 5: Dividends

There have been no dividends declared or recommended and no distributions made to shareholders or other persons during the period.

Note 6: Events Subsequent to Reporting Date

There have not been any matters or circumstances that have arisen since the reporting date, that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

Note 7: Contingent Liabilities

Pharmanet Group Limited and its controlled entities have no known material contingent liabilities as at 31 December 2012.

Note 8: Share Based Payments

On 28 November 2011, *performance rights* were granted to directors as part of their remuneration.

The performance rights share-based payments expense for the half-year ended recognised in the Statement of Comprehensive Income was \$25,406, with the balance of \$9,069 to be carried forward and proportioned over the period up until the expiry date of 7 December 2014.

Directors' Declaration

In the opinion of the directors:

- a) The financial statements and notes 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 31 December 2012 and of its performance for the half-year ended on that date; and
 - ii) complying with Australian Accounting Standards AASB 134: Interim Financial Reporting;
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of directors.



John Palermo
Director

Perth
27th February 2013

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
PHARMANET GROUP LIMITED**

We have reviewed the accompanying half-year financial report of Pharmanet Group Limited which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pharmanet Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pharmanet Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

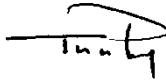
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Pharmanet Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 27 February 2013

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Pharmanet Group Limited for the half-year ended 31 December 2012, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM Bird Cameron Partners
RSM BIRD CAMERON PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 27 February 2013