

# GENESIS BIOMEDICAL LTD

A.B.N. 48 083 274 024

## ANNUAL FINANCIAL REPORT

for the year ended 30 June 2005

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## CORPORATE DIRECTORY

### **GENESIS BIOMEDICAL LTD** **A.B.N. 48 083 274 024**

#### **Directors**

Dr Robert F Gilmour  
Executive Chairman

Mr Emmanuel Correia  
Non-Executive Director

Mr Adrian Knight  
Non Executive Director

Mr Roger Smith  
Non Executive Director

#### **Company Secretary**

Mr Shane Hartwig

#### **Registered Office**

Level 5, 52 Phillip Street  
SYDNEY  
New South Wales 2000  
Telephone: 02 9252 8455  
Facsimile: 02 9252 8466  
e-mail: [info@genbiomed.com](mailto:info@genbiomed.com)  
Web : [www.genbiomed.com](http://www.genbiomed.com)

#### **Share Registry**

Computershare Investor Services Pty Ltd  
Level 2, 45 St George's Terrace  
PERTH  
Western Australia 6000  
Telephone: 1300 557 010

#### **Auditors**

Ernst & Young  
680 George Street  
SYDNEY  
New South Wales 2000

#### **Solicitors**

Steinepreis Paganin  
Level 4, Chancery House  
37 St Georges Terrace  
PERTH  
Western Australia 6000

#### **Bankers**

Westpac Bank  
Cnr Pitt & Bridge Streets  
SYDNEY  
New South Wales 2000



## REVIEW OF OPERATIONS

### Summary

The 2004/05 financial year has been a year of efforts centred on a number of matters including the Company continuing to progress the Company's proprietary technology, the Board being presented with and assessing numerous commercial opportunities, as well as the Board undertaking an overall review of all aspects of the Company's activities including to reconfigure some of the existing processes and management.

This activity has resulted in the Company re-affirming its focus on its core mandate of medical device product development and ultimate commercialisation from either internally developed intellectual property or alternatively, externally developed IP that is seeking Company specific know/how, funding, path to market or a combination of all three.

Activity occurring throughout and subsequent to the year end included:

- Entering into a Heads of Agreement with a US based orthopaedic group surrounding the potential licensing of the Company's CellGen technology;
- Appointment of a Strategic Advisory Committee;
- Re-configuration of the Board to include the appointment of Mr Adrian Knight and Mr Roger Smith;
- Dr Robert Gilmour assuming a greater executive role within the Company;
- The Board commencing the process of identifying a suitable full time CEO;
- The Company looking to re-establish investor and key stakeholder relationship platforms; and
- The Company entering into agreements surrounding the potential purchase of some exciting fertility technology.

The Board is confident that having achieved the above and upon the appointment of the appropriate CEO, the Company will be well positioned to progress the existing projects the Company is currently working on, as well as potentially taking advantage of other opportunities currently being presented.

### Operational Review

#### CellGen™

The Company's proprietary asset CellGen™ is a clinically advantageous non-invasive therapy that promotes injury recovery and tissue regeneration through the reproduction of bioelectrical signals. Modalities similar to that of CellGen™ are used extensively in the Northern Hemisphere markets as a treatment for non-uniting fractures, stress fractures and more recently in the treatment of osteoarthritis and other common musculoskeletal disorders.

The ultimate aim of the development of these devices was to fully commercialise these products through either, the manufacture and sale of the products directly or through a distribution model, or alternatively license the technology surrounding the products to existing medical device manufacturers.

The Company has undertaken various trials of the technology including a double blind clinical trial to assess the effectiveness of CellGen™ in treating patients with osteoarthritis of the knee and more recently a trial within the Pemex orthopaedic clinic in Mexico City) has trialled several prescriptions on 46 patients using the Company's CellGen® treatments. The results have indicated that the clinical response to CellGen in certain conditions is very positive.



The market for products such as CellGen has changed in recent years. The bone growth market has grown considerably particularly in parallel with the growth of spinal surgery. The acceptance of this category of product has increased amongst healthcare professionals, and more particularly there is now an established market for these products in the conservative management of osteoarthritis of the knee. Significantly the regulatory environment in the major markets is more favourable.

Throughout the year the Company agreed terms with a North American orthopedic device and rehabilitation company ("OrthoCo") setting out the basis upon which OrthoCo may license its proprietary CellGen technology.

OrthoCo wishes to trial CellGen therapy in the United States with the intention of entering into an exclusive licensing agreement with the Company for the marketing and sale of the product/s in the United States.

The entering into a licensing arrangement will be subject to a satisfactory trial of the Company's CellGen product with US orthopedic practitioners which commenced in early June. Assuming a successful completion of the trial, the Company will look to enter into a formal Licensing Agreement with OrthoCo.

### **Strategic Advisory Committee**

As part of the Board's operational review it was agreed that it would be appropriate for the Company to establish a strategic advisory committee. The broad charter for this committee is to provide independent advice to the Board surrounding either, the Company's existing IP and technology and/or other advice in relation to other commercial opportunities as presented.

The Board will look to be provided with the Committee's opinion on matters including (but not limited to):

- The underlying science behind the IP/Product/Technology;
- The existing/potential market surrounding the commercialisation of the IP/Product/Technology;
- Distribution/Licensing/Trade Sale opportunities;
- Management surrounding the IP/Product/Technology;
- Proposed commercialisation route including proposed funding levels;
- Risks associated with the IP/Product/Technology.

### **Board Re-structure**

The Company appointed Mr Adrian Knight and Mr Roger Smith to the Board, both of whom have added greatly to the recent impetus of the increased activity of the Company. Summary biographies are included in the Directors Report.

### **CEO Search**

Whilst Dr Robert Gilmour has more recently taken a more executive role within the Company, the Board has recognised the need for the Company to appoint a suitably experienced full time CEO to manage the medium to long term objectives of the Company.

The Board has appointed a leading executive search consultant, as at the date of this report the Company is in the process of redefining the actual need and potential role description and an accompanying candidate profile.

### **Investor Relations**

Having recognised the importance of communicating with its key stakeholders, the Company appointed an Investor Relations consultant to assist the Company in re-establishing its key relationships and improve overall communication with the market.



## Signs Fertility Technology Agreement

Subsequent to the year end, the Company entered into agreements setting out the terms upon which it may purchase the issued capital of a New Zealand based bio-technology company, involved in the development of fertility testing devices for use in both human healthcare and veterinary markets.

The company is known as Manawatu Biotech Investments Limited (“MBIL”) and its focus is the development of commercial products based on its proprietary science concerning the measurement of the urinary glucuronides E1G and PDG which are metabolites of oestrogen and progesterone, respectively, found in the urine of female humans and various other mammals.

MBIL’s proprietary science has been developed over the past 25 years and has involved during that period collaborations with Massey University, University of Melbourne and the World Health Organisation;

The Company has been working with MBIL in the further development of its proprietary science as well as working with two US-based companies specializing in lateral flow technology. The ultimate objective is to combine technologies in order to produce a medical device which in the first instance can be used to define the fertile period within the human menstrual cycle.

## Potential Path to Market

To achieve its aim of having a commercial product to sell based on the application of the technologies summarised above, the Company has devised a path to market briefly outlined below.

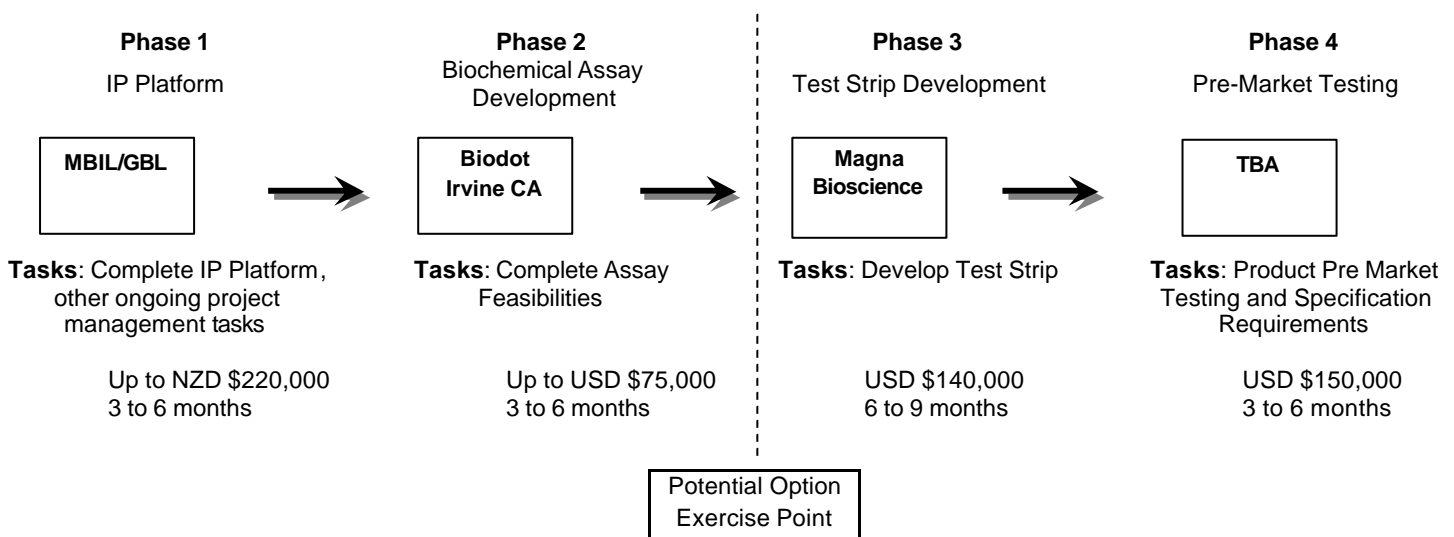
Phase 1 – Implement Intellectual Property Platform

Phase 2 - Complete Biochemical Assay Development

Phase 3 – Complete Test Strip development

Phase 4 - Product pre-market testing and specification refinement

**Fig 1: Path to Market Flow Diagram including approximated development costs**



## Risk Analysis

The major risks lie in successfully completing the biochemical assay development required for the diagnostic test strips and formulating an algorithm to determine the fertility status from hormonal excretion rates (Phase 2). As at the date of this Report, the Company is in the process of undertaking the Biochemical Assay Development outlined in Phase 2 above.



The risk associated with the development of the PMP strip and reader (Phase 3) is considered to be minimal as the process is considered to be “proven”. However, the affordability of the device by its target market remains a risk.

The Company believes the structure of the transaction provides the Company with significant flexibility to work with MBIL and the US based technology partners to progress the development of the proposed product. Further, the structure assists in mitigating the overall product development risk to the Company by the incorporation of “go forward”/“stop” milestone points along the proposed 12 to 18 month development timeline.

### **Transaction Terms**

The commercial terms of the transaction are the provision by the Company to MBIL of a Loan Facility of up to AUD\$250,000 to be applied against an agreed development budget, along with the Company having the right to purchase (“the Option”) within a twelve month period the entire issued capital of MBIL for a consideration of AUD\$450,000 comprising a cash component of \$200,000 and \$250,000 in equity.

As at the date of this Report, the Company had provided approximately \$149,391 under the terms of the Loan Facility Agreement.

The Board is excited about the potential of this opportunity and awaits the completion of Phase 2 as outlined above to determine the next steps.

### **Corporate**

The Company raised \$300,000 (excluding costs of the issue) through the issue of 10,000,000 fully paid ordinary shares in the Company at an issue price of \$0.03 per share. These shares were issued and allotted on the 11th November 2004.

The consolidated entity’s operating loss after tax for the year ended 30 June 2005 was \$386,191. This result included interest income and proceeds of sale of shares totalling \$99,217 and a write back to the “provision for surplus lease space” as a result of assigning a head lease arrangement to the sitting sub-lessee offset by operating expenditure as detailed fully in the financial statements.



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## DIRECTORS' REPORT

Your directors submit their report for the Company and its controlled entities ("the consolidated entity") for the year ended 30 June 2005.

### DIRECTORS

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

**Dr Robert F Gilmour**     **Non-executive Director**  
**B.Sc., MDChD**

Dr Gilmour brings extensive experience in medical design and in the orthopedic, orthotic and prosthetic markets to the Company's board. Dr Gilmour has taught anatomy at Monash Medical School and Stanford University, California, where he also worked in the Sports Medicine Clinic. Dr Gilmour began work in the area of medical design in 1987 and gained quick success in retail markets.

**Mr Emmanuel Correia**     **Non-executive Director**

Mr Correia is an Associate of the Institute of Chartered Accountants of Australia. Over the last 10 years, Mr Correia has held a number of corporate finance positions in Europe and in Australia with international accounting firms and investment banks. Mr Correia works in the areas of corporate structuring and strategy, capital raising and mergers and acquisitions. During the past three years Mr Correia has also served (and continues to serve) as a non-executive director of Sun Capital Group Limited, an ASX listed Company.

**Mr Adrian Knight**     **Non-executive Director**

Mr Knight was appointed to the Board effective 21<sup>st</sup> February 2005, Mr Knight's career to date has been focused primarily in the Financial Services, Information Technology and Sales and Marketing industries and he has held senior positions within these industries throughout the UK, Europe, South Africa, Japan, USA and Australia.

Mr Knight's background includes senior management positions within IBM, American International Group (AIG) and Huon Corporation. Mr Knight is currently Managing Director of a privately owned company involved in the provision of branded TV concepts and productions and is the Non Executive Chairman of a not for profit organisation known as the Bluearth Institute.

**Mr Roger Smith**     **Non-executive Director**

Mr Smith was appointed to the Board effective 21<sup>st</sup> February 2005, Mr Smith has many years experience in retail trade and financial planning. He has held a number of proprietary company directorships and has been successful in the operation of a number of wholesale/retail businesses in Australia. During the past three years Mr Smith has also served (and continues to serve) as a non-executive director of Sun Capital Group Limited, an ASX listed Company.

**Mr Adam S Davey**     **Non-executive Director**

Mr Davey resigned from his position of Non Executive Director on 22<sup>nd</sup> February 2005. Mr Davey was appointed to the Board on 15<sup>th</sup> July 2004 and has experience in merchant banking, stock broking and corporate advisory services. He is a Director of Montagu Pty Ltd, a member corporation of the Australian Stock Exchange and Chairman of Teen Challenge Foundation (WA) Inc.



## DIRECTORS' REPORT CONTD...

### OFFICERS

#### Mr Shane Hartwig      **Company Secretary**

Shane is a Certified Practicing Accountant and Chartered Company Secretary holds a Bachelor of Business degree, majoring in Accounting and Taxation from Curtin University of Technology in Western Australia.

Shane is involved in the areas of IPOs, capital raisings, prospectus and information memorandum preparation and project management, company assessments and due diligence reviews, mergers and acquisitions and providing general corporate advice.

Shane has over fifteen years experience in the finance industry both nationally and internationally with exposure to both the debt and equity capital markets.

### PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were the development and commercial exploitation of medical technologies for the treatment of musculoskeletal disorders.

### RESULTS

The consolidated entity's operating loss after tax for the year ended 30 June 2005 was \$386,191 (2004: loss \$336,877).

### DIVIDENDS

The directors do not recommend the payment of a dividend for this financial year. No dividends have been paid or declared by the Company since the end of the previous financial year (2004: Nil).

### REVIEW OF OPERATIONS, LIKELY DEVELOPMENTS AND FUTURE RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity would, in the opinion of the directors, be speculative and may hinder the consolidated entity in the achievement of its commercial objectives.

### DIRECTORS' INTERESTS

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	DIRECT		INDIRECT	
	Ordinary Shares	Options	Ordinary Shares	Options
R F Gilmour	-	-	4,000,000	-
E Correia	125,000	-	-	-
A Knight	-	-	-	-
R Smith	-	-	5,140,523	-



## **DIRECTORS' REPORT CONTD...**

### **SIGNIFICANT CHANGE IN STATE OF AFFAIRS**

The state of affairs of the consolidated entity was not affected by any significant changes during the financial year

### **SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE**

On 18 July 2005 the Company announced to the market that it entered into agreements upon which GBL may purchase the issued capital of a New Zealand based bio-technology company, involved in the development of fertility testing devices for use in both human healthcare and veterinary markets.

The commercial terms of the transaction are the provision by Genesis to MBIL of a Loan Facility of up to AUD\$250,000 to be applied against an agreed development budget, along with Genesis having the right to purchase within a twelve month period the entire issued capital of MBIL for a consideration of AUD\$450,000 comprising a cash component of \$200,000 and \$250,000 in Genesis equity.

Subsequent to 30 June 2005, at the date of this Report, Genesis had provided approximately \$149,391 under the terms of the Loan Facility Agreement.

The Appendix 4E released to the market on the 31st August 2005 contained details of a proposed rights issue the Company was contemplating. On the 16th September 2005, the Company advised the market that due to the fact that it is currently assessing an investment opportunity, it has not been in a position to proceed with its previously announced rights issue in accordance with the previously indicated time frames.

If a decision is made to proceed with the investment opportunity currently under review, the Company's funding requirements may change and hence the terms, conditions and timing of the proposed rights issue or the nature of the capital raising may also change.

As at the date of this report the Company is not sufficiently advanced in the assessment of the opportunity to provide any specific detail to the market. The Company will keep the market informed as to whether an agreement is reached in relation to this opportunity and the subsequent impact this may have on the Company's capital raising plans.

Other than disclosed above and at Note 23 to the Accounts on page 39, there are no other matters or circumstances that have arisen since the end of the financial year which 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 subsequent financial years.

### **OPTIONS**

During the year, Nil options were issued, as at the date of this report the Company had Nil (2004: 2,000,000) unlisted options on issue.

During the year the following 2,000,000 unlisted options expired.

<b>Holder</b>	<b>No. of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
R Northcott	2,000,000	0.40	23 November 2004

During the year, Nil (2004: Nil) fully paid ordinary shares were issued by the virtue of the exercise of options. Since the end of the financial year no shares have been issued by the virtue of the exercise of options.



Option holders do not have the right, by any virtue of the option, to participate in any share issue of the Company or any related body corporate, or in the interest issue of any other registered scheme. Since the end of the financial year no options have been issued.

## **INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE CONSOLIDATED ENTITY**

During or since the financial year-end no director has had any interest in a contract or proposed contract with the consolidated entity, other than being an interest, the nature of which has been declared by the director below or elsewhere throughout this report:

- (i) The consolidated entity paid to Cardrona Capital Pty Ltd, a company of which Mr E Correia is a director, fees totalling \$86,700 (2004:\$72,000) for provision of company secretarial, financial control and due diligence services.
- (ii) The consolidated entity paid to Bodyworks Holdings Limited an amount of \$90,244 in consulting fees. Refer to page 11 setting out the basis upon these consulting fees are paid.

## **REMUNERATION REPORT**

This remuneration report outlines the remuneration arrangements for the Company's directors and provides the disclosures required by new accounting standard AASB 1046 'Directors and Executive Disclosures by Disclosing Entities. This note also meets the remuneration reporting requirements of the Corporations Act 2001.

The disclosures in this Note cover the specified directors (including the Executive Chairman).

### **Remuneration Committee**

Throughout the financial year, the consolidated entity did not have a remuneration committee as the directors believed the size of the consolidated entity and the size of the Board did not at that stage warrant its existence.

Subsequent to 30 June 2005, the Directors have resolved to establish a remuneration committee. This committee will be made up of two directors, Mr Adrian Knight and Mr Roger Smith, who will also seek advice from independent consultants on trends in domestic executive and non-executive remuneration.

The intention of the Remuneration Committee is to establish Genesis's remuneration policies and practices and to ensure they match the group's objectives. It is intended that the Committee will make recommendations to the Genesis Board on the proposed Chief Executive Officer's total remuneration package, review the Non Executive remuneration and review any non-executive director share plan that may be proposed.

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

#### **(i) Specified directors**

R Gilmour	Chairman (executive)
E Correia	Director (non-executive)
R Smith	Director (non-executive): appointed 21 <sup>st</sup> February 2005
A Knight	Director (non-executive): appointed 21 <sup>st</sup> February 2005
A Davey	Director (non-executive): resigned 22 <sup>nd</sup> February 2005

#### **(ii) Specified executives**

Nil



## DIRECTORS' REPORT CONTD...

### (b) Remuneration of Specified Directors and Specified Executives

Dr Robert Gilmour, as Executive Chairman is currently the only executive of the Company and has been remunerated for this role as follows:

- (i) Base Director Fees; and
- (ii) Agreed Consultancy Fees.

Subsequent to 30 June 2005, the Board has agreed to include an additional fee for his role as Chairman. The remaining Directors are all considered Non-Executive Directors. Remuneration to the Non Executive Directors was by way of Directors Fees, with the level of such fees having been set by the Board to an amount it considers to be commensurate for a company of Genesis's size and level of activity.

#### Remuneration of Specified Directors and Specified Executives

	Primary Salary and Base Fees	Consulting Fees (1)	Non Monetary benefits	Post Employment Superan- nuation	Retirement Benefits	Equity Options	Other Directors and Officers Insurance (2)	Total
<b>Specified Directors</b>								
<b>R Gilmour</b>								
2005	\$25,000	\$90,244	-	-	-	-	\$12,868	\$128,112
2004	\$25,000	-	-	-	-	-	\$11,291	\$36,291
<b>E Correia</b>								
2005	\$25,000	-	-	-	-	-	\$12,868	\$37,868
2004	\$25,000	-	-	-	-	-	\$11,291	\$36,291
<b>A Knight</b>								
2005	\$8,850	-	-	-	-	-	\$4,560	\$13,410
2004	-	-	-	-	-	-	-	-
<b>R Smith</b>								
2005	\$8,850	-	-	-	-	-	\$4,560	\$13,410
2004	-	-	-	-	-	-	-	-
<b>A Davey</b>								
2005	\$16,200	-	-	-	-	-	\$8,344	\$24,544
2004	\$24,024	-	-	-	-	-	\$10,858	\$34,882
<b>Total Remuneration: Specified Directors</b>								
2005	\$83,900	\$90,244	-	-	-	-	\$43,200	\$217,344
2004	\$74,024	-	-	-	-	-	\$33,440	\$107,464

(1) Currently Dr Gilmour assumes the role of Executive Chairman and is remunerated for these services through consulting fees paid to Bodyworks Holdings Limited.

(2) Represents pro-rata apportionment of directors & officers insurance premium paid during the year.

During the financial year Mr Davey resigned from his position as Non Executive Director of Genesis Biomedical Limited. Mr Davey's emoluments represent Directors Fees paid in his capacity as Non Executive Director.



## DIRECTORS' REPORT CONTD...

Other than disclosed all remuneration to the Directors is restricted to the Directors Fees paid as outlined above.

Currently there are no full time executives of the Company other than the directors.

There is no direct relationship between the remuneration of directors and the financial performance of the consolidated entity.

### (c) Option holdings of specified directors

	Balance at beginning of period 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2005	Total Total	Vested at 30 June 2005	
							Not Exercisable	Exercise able
<b>Specified Directors</b>								
R Gilmour	-	-	-	-	-	-	-	-
E Correia	-	-	-	-	-	-	-	-
A Knight	-	-	-	-	-	-	-	-
R Smith	-	-	-	-	-	-	-	-
A Davey	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### (d) Shareholdings of Specified Directors

	Balance at 1 July 2004/ Appointment Date	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance at 30 June 2005/Resignation Date
<b>Specified Directors</b>					
R Gilmour	4,000,000	-	-	-	4,000,000
E Correia	125,000	-	-	-	125,000
A Knight	-	-	-	-	-
R Smith	5,140,523	-	-	-	5,140,523
A Davey	2,004,154	-	-	-	2,004,154
<b>Total</b>	<b>11,269,677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,269,677</b>

All equity dealings have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.



## DIRECTORS' REPORT CONTD...

### DIRECTORS' MEETINGS

During the year, directors' meetings were held. The number of meetings in which directors were in attendance is as follows:

	Directors' Meetings	
	No. of meetings held while in office	Meetings attended
R. F. Gilmour	20	19
E. Correia	20	20
A Knight	6	6
R Smith	6	6
A Davey	15	15

As at the date of this report, the consolidated entity did not have an audit committee, as the directors believe the size of the consolidated entity and the size of the Board do not currently warrant its existence.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the consolidated entity has paid premiums in respect of a contract insuring all the directors of Genesis Biomedical Ltd against a liability incurred in their role as directors of the consolidated entity, except where:

- (a) the liability arises out of conduct involving a wilful breach of duty;
- (b) there has been a contravention of the relevant Sections of the Corporations Act;
- (c) the conduct involves trading whilst insolvent;
- (d) the conduct involves an operation carried on outside Australia.

The total amount of insurance contract premiums paid for Directors' and Officers' Liability and consolidated entity reimbursement cover was \$43,200 (2004: \$36,968). This amount has been included as part of directors' remuneration.

In addition, during the financial year, the company and each of the directors entered into Deeds of Indemnity and Access, as approved by the board. Those Deeds of Indemnity and Access provide that:

- the directors will have access to the books of Genesis Biomedical Limited for their period of office and for seven years after they cease to hold office;
- Genesis Biomedical Limited indemnifies the directors to the extent permitted by law;
- The indemnity covers liabilities incurred by the directors in their capacity as officers of other Genesis group companies; and
- Genesis will, where appropriate maintain directors and officers insurance cover for the directors to the extent permitted by the law for the period of their office and for seven years after they cease to hold office

### CAPITAL RAISING

During the financial year the Company raised \$300,000 (excluding costs of the issue) through the issue of 10,000,000 fully paid ordinary shares in the Company at an issue price of \$0.03 per share. These shares were issued and allotted on 11 November 2004.



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## **DIRECTORS' REPORT CONTD...**

### **CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of Corporate Governance.

The consolidated entity's Corporate Governance Statement is contained in the additional Australian Stock Exchange information section of this annual report.

### **ENVIRONMENTAL REGULATION AND PERFORMANCE**

The consolidated entity does not hold any permits in relation to environmental discharge and does not handle or store hazardous materials.

### **AUDITOR INDEPENDENCE**

A copy of the Auditor's Independence Declaration for the year ended 30 June 2005 is set out on page 14.

### **SIGNED in accordance with a resolution of the directors**

Emmanuel Correia  
Non Executive Director

27 September 2005



■ Ernst & Young Centre  
680 George Street  
Sydney NSW 2000  
Australia

■ Tel 61 2 9248 5555  
Fax 61 2 9248 5959  
DX Sydney Stock  
Exchange 10172

GPO Box 2646  
Sydney NSW 2001

### **Auditor's Independence Declaration to the Directors of Genesis Biomedical Limited**

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

Ernst & Young

Christopher D. George  
Partner

27 September 2005



**GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**YEAR ENDED 30 JUNE 2005**

	Notes	Consolidated		Genesis Biomedical Ltd	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	2	362,581	568,363	362,581	568,363
Cost of materials	3(a)	-	11,118	-	11,118
Salaries and Directors fees		(83,021)	(101,534)	(83,021)	(101,534)
Lease Rental Payments	3(d)	(259,624)	(277,823)	(259,624)	(277,823)
Professional fees	3(b)	(303,927)	(148,676)	(303,927)	(148,676)
Insurance		(22,503)	(45,065)	(22,503)	(45,065)
Travel		(35,836)	-	(35,836)	-
Decrement in the value of investments	3(c)	-	(139,599)	(10,000)	(139,599)
Other expenses from ordinary activities		(26,443)	(28,319)	(26,443)	(28,319)
Cost of investment in listed investment disposed	3(e)	(17,418)	(175,342)	(17,418)	(175,342)
<b>LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		(386,191)	(336,877)	(396,191)	(336,877)
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>	4	-	-	-	-
<b>LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE</b>		(386,191)	(336,877)	(396,191)	(336,877)
<b>NET LOSS ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST</b>	15	-	-	-	-
<b>NET LOSS ATTRIBUTABLE TO MEMBERS OF GENESIS BIOMEDICAL LTD</b>		(386,191)	(336,877)	(396,191)	(336,877)
Share Issue Costs	13(b)	(15,000)	-	(15,000)	-



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**GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**YEAR ENDED 30 JUNE 2005**

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	Notes	Consolidated		Genesis Biomedical Ltd	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF GENESIS BIOMEDICAL LIMITED AND RECOGNISED DIRECTLY IN EQUITY</b>		(15,000)	-	(15,000)	-
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF GENESIS BIOMEDICAL LTD</b>		(401,191)	(336,877)	(411,191)	(336,877)
Basic earnings per share (cents)	19	(0.47)	(0.44)	-	-
Diluted earnings per share (cents)	19	(0.47)	(0.44)	-	-



**GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES**  
**STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2005**

	Notes	Consolidated		Genesis Biomedical Ltd	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash assets	16(b)	1,063,492	1,088,288	1,063,492	1,088,288
Receivables	5	13,148	9,029	13,148	9,029
Other financial assets	6	-	14,488	-	14,488
Other	7	134,782	226,954	134,782	226,954
<b>TOTAL CURRENT ASSETS</b>		<b>1,211,422</b>	<b>1,338,759</b>	<b>1,211,422</b>	<b>1,338,759</b>
<b>NON-CURRENT ASSETS</b>					
Other financial assets	8	-	-	3	10,003
<b>TOTAL NON-CURRENT ASSETS</b>		<b>-</b>	<b>-</b>	<b>3</b>	<b>10,003</b>
<b>TOTAL ASSETS</b>		<b>1,211,422</b>	<b>1,338,759</b>	<b>1,211,425</b>	<b>1,348,762</b>
<b>CURRENT LIABILITIES</b>					
Payables	10	70,532	18,410	70,532	18,410
Provisions	11	72,338	74,357	72,338	74,357
<b>TOTAL CURRENT LIABILITIES</b>		<b>142,870</b>	<b>92,767</b>	<b>142,870</b>	<b>92,767</b>
<b>NON-CURRENT LIABILITIES</b>					
Provisions	12	-	76,250	-	76,250
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>76,250</b>	<b>-</b>	<b>76,250</b>
<b>TOTAL LIABILITIES</b>		<b>142,870</b>	<b>169,017</b>	<b>142,870</b>	<b>169,017</b>
<b>NET ASSETS</b>		<b>1,068,552</b>	<b>1,169,742</b>	<b>1,068,555</b>	<b>1,179,745</b>
<b>EQUITY</b>					
Parent entity interest					
Contributed equity	13	13,272,985	12,987,985	13,272,985	12,987,985
Accumulated losses	14	(12,183,044)	(11,796,854)	(12,204,430)	(11,808,240)
Total parent entity interest in equity		<b>1,089,941</b>	<b>1,191,131</b>	<b>1,068,555</b>	<b>1,179,745</b>
Total outside equity interest		<b>(21,389)</b>	<b>(21,389)</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY</b>		<b>1,068,552</b>	<b>1,169,742</b>	<b>1,068,555</b>	<b>1,179,745</b>



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**GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED 30 JUNE 2005**

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	Notes	Consolidated		Genesis Biomedical Ltd	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		255,168	265,994	255,168	265,994
Payments to suppliers and employees		(664,180)	(717,653)	(664,180)	(717,653)
Interest received		68,243	84,055	68,243	84,055
Borrowing costs		-	-	-	-
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	16(a)	<b>(340,769)</b>	<b>(367,604)</b>	<b>(340,769)</b>	<b>(367,604)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments		-	(170,000)	-	(170,000)
Proceeds from sale of investments		30,973	230,517	30,973	230,517
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>30,973</b>	<b>60,517</b>	<b>30,973</b>	<b>60,517</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of ordinary shares		285,000	-	285,000	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>285,000</b>	<b>-</b>	<b>285,000</b>	<b>-</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>(24,796)</b>	<b>(307,087)</b>	<b>(24,796)</b>	<b>(307,087)</b>
Opening cash brought forward		1,088,288	1,395,375	1,088,288	1,395,375
<b>CLOSING CASH CARRIED FORWARD</b>	16(b)	<b>1,063,492</b>	<b>1,088,288</b>	<b>1,063,492</b>	<b>1,088,288</b>



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## **GENESIS BIOMEDICAL LTD AND CONTROLLED ENTITIES**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **30 JUNE 2005**

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#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of accounting**

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

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

The financial statements have been prepared on a going concern basis.

##### **Change in accounting policies**

The accounting policies adopted are consistent with those of the previous year.

##### **Principles of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising Genesis Biomedical Ltd (the parent company) and all entities that Genesis Biomedical Ltd controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

##### **Foreign currencies**

###### *Translation of foreign currency transactions*

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

Amounts payable to and by the entities within the consolidated entity that are outstanding at the reporting date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year. All resulting exchange differences arising on settlement or restatement are brought to account in determining the profit or loss for the financial year.



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## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2005 (cont'd)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### **Cash**

For the purpose of the statement of cash flows, cash includes cash on hand and in banks, net of bank overdrafts. Cash on hand and in banks and short term deposits are stated at nominal value.

##### **Income tax**

The consolidated entity adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable income and accounting profit. Income tax on timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, are carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

##### **Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of GST except:

- i. where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- ii. receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

##### **Recoverable amount**

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down where applicable. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.



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## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2005 (cont'd)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### **Investments**

Listed shares held for trading are carried at net market value. Changes in net market value are recognised as a revenue or expense in determining the net profit for the period.

Investments in listed securities are carried at the lower of cost and recoverable amount. Recoverable amount is determined by reference to the market price of the security at balance date.

Investments in associates are carried at the lower of the equity accounted amount and recoverable amount in the consolidated financial report.

All other non-current investments are carried at the lower of cost and recoverable amount.

##### **Receivables**

Trade receivables and other receivables are carried at nominal amounts due. The collectability of debts is assessed continuously and specific provision is made for any doubtful accounts.

##### **Research and development**

Research and development costs are expensed as incurred.

##### **Leases**

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

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, will be included in the determination of the operating profit on a straight line basis over the lease term.

##### **Employee benefits**

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

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Employee benefit expenses arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, and other leave benefits; and
- other types of employee benefits

are charged against profits on a net basis in their respective categories.



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## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2005 (cont'd)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### **Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the company or consolidated entity.

##### **Earnings per share**

Basic earnings per share is calculated as net profit/(loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/(loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential shares, adjusted for any bonus element.

##### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured.

Research and development revenue is recognised when received.

Rental Income is recognised when invoices for monthly amounts are raised.

The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of goods*

Control of the goods has passed to the buyer.

##### *Interest*

Control of the right to receive the interest payment.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Surplus lease space**

A provision for surplus leased office accommodation is recognised for the expected lease cost to be paid by the consolidated entity less any amounts to be recovered from sub-leasing. The provision is based on the best estimate of the expenditure to be incurred and sub-leasing income to be received, and is reviewed each reporting date to determine whether the provision is adequate.

**Provisions**

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

**Contributed equity**

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

**Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.



**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

**2. REVENUE FROM ORDINARY ACTIVITIES**

	Consolidated		Genesis Biomedical Ltd	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Revenues from operating activities</b>				
Revenue from sale of goods	-	-	-	-
<b>Total revenue from operating activities</b>	-	-	-	-
<b>Revenues from non-operating activities</b>				
Interest – other corporations	68,243	84,054	68,243	84,054
Proceeds from sale of investments	30,974	230,517	30,974	230,517
Rental income – sub leased premises	263,364	253,792	263,364	253,792
<b>Total revenue from non - operating activities</b>	362,581	568,363	362,581	568,363
<b>Total revenues from ordinary activities</b>	362,581	568,363	362,581	568,363

**3. EXPENSES AND LOSSES/(GAINS)**

(a) Cost of sales				
Cost of materials	-	(11,118)	-	(11,118)
(b) Professional Fees				
Audit Fees	24,000	24,000	24,000	24,000
Company Secretarial Fees	72,000	72,000	72,000	72,000
Legal Fees	16,873	4,669	16,873	4,669
Accounting Fees	10,878	18,906	10,878	18,906
ASX/Share Registry Fees	21,908	18,918	21,908	18,918
Other Consulting Fees	158,268	10,183	158,268	10,183
Total	303,927	148,676	303,927	148,676
(c) Other expenses and losses/(gains)	-	(139,599)	(10,000)	(139,599)
(d) Minimum Lease Rental payments associated with sub-leased excess office premises	259,624	277,823	259,624	277,823
(e) Cost of Investments in listed investments sold	17,418	175,342	17,418	175,342
Proceeds from sale of listed investments	(30,974)	(230,517)	(30,974)	(230,517)
Net (gain)/loss on listed investments sold	(13,556)	(55,175)	(13,556)	(55,175)



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**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

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	Notes	Consolidated		Genesis Biomedical Ltd	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>4. INCOME TAX</b>					
The prima facie tax on the operating loss is reconciled to the income tax provided in the financial statements as follows:					
Prima facie tax payable on the operating loss from ordinary activities		(115,857)	(101,063)	(118,857)	(101,063)
Tax effect of permanent differences:					
Research & development refund		-	-	-	-
Amortisation of non-deductible expenditures		-	-	-	-
Current period tax benefit not brought to account		(115,857)	(101,063)	(118,857)	(101,063)
Income tax expense attributable to ordinary activities		-	-	-	-

As at 30 June 2005 future income tax benefits were available to the consolidated entity in respect of operating losses. The Directors estimate the potential income tax benefit at 30 June 2005 in respect of tax losses not brought to account is approximately \$4,108,612 (2004: \$3,992,755). The benefit of these losses has not been brought to account as realisation is not virtually certain.

The future income tax benefit will only be obtained if:

- the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Since the substantive enactment of the Tax Consolidation legislation the Genesis consolidated group has elected not to enter the tax consolidation regime.



**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

	Consolidated		Genesis Biomedical Ltd	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>5. RECEIVABLES (CURRENT)</b>				
Trade Debtors	13,148	9,029	13,148	9,029
	<u>13,148</u>	<u>9,029</u>	<u>13,148</u>	<u>9,029</u>

**6. OTHER FINANCIAL ASSETS (CURRENT)**

**Investments at cost comprise:**

Listed shares at cost	-	490,572	-	490,572
Provision for diminution	-	(476,084)	-	(476,084)
Market value of shares at 30 June	-	<u>14,488</u>	-	<u>14,488</u>

The investments at market value are listed on the Australian Stock Exchange Ltd relate to minority holdings in Earth Essence International Limited.

**7. OTHER CURRENT ASSETS**

Prepayments	12,969	29,344	12,969	29,344
Security deposits in respect of operating leases	121,813	197,610	121,813	197,610
	<u>134,782</u>	<u>226,954</u>	<u>134,782</u>	<u>226,954</u>

**8. OTHER FINANCIAL ASSETS (NON-CURRENT)**

**Investments at cost comprise:**

Shares - unlisted	547,862	547,862	547,862	547,862
Provision for diminution in value	(547,862)	(547,862)	(547,862)	(547,862)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Investment in controlled entities  
(Refer to note 9)

	-	-	3	10,003
	<u>-</u>	<u>-</u>	<u>3</u>	<u>10,003</u>

The unlisted investment is the 15% shareholding the Company has in the Singapore based Back to Health Pte Ltd, a 50% shareholder in DBCI Asia Pacific Pte Ltd. This company holds the Master Licence for the DBC operations in Asia. The directors resolved to write down the value of this holding to Nil as at 31 December 2003.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

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**9. INTERESTS IN SUBSIDIARIES**

Name	Country of Incorporation	Percentage of equity interest held by the consolidated entity		2005	2004
		2005	2004		
<b>Direct</b>					
Genovations Pty Ltd	Australia	100	100	\$ 1	\$ 1
NewMed Systems Ltd	Australia	100	100	1	1
Smart Chair Systems Pty Ltd	Australia	50	50	-	10,000
<b>Indirect</b>					
Back to Health Australasia Ltd	Australia	100	100	1	1
West Perth Clinic 1 Pty Ltd	Australia	100	100	-	-
DBC Australia Pty Ltd	Australia	75	75	-	-
				<u>3</u>	<u>10,003</u>

*(a) Entities subject to class order relief*

Pursuant to Class Order 94/1418, relief has been granted to the wholly owned subsidiaries from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, Genesis Biomedical Ltd and the controlled entities subject to the Class Order (the "Closed Group") entered into a Deed of Cross Guarantee on 29 May 2000. The effect of the deed is that Genesis Biomedical Ltd has guaranteed to pay any deficiency in the event of winding up of a controlled entity to which the class order applies. The controlled entities have also given a similar guarantee in the event that Genesis Biomedical Ltd is wound up.



## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2005 (cont'd)

#### 9. INTERESTS IN CONTROLLED ENTITIES (cont'd)

The consolidated statement of financial performance and statement of financial position of the entities which are members of the "Closed Group" are as follows:

<i>(i) Consolidated statement of financial performance</i>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Operating loss before income tax	(396,191)	(336,877)
Income tax attributable to operating loss	-	-
Operating loss after income tax attributable to Members	<u>(396,191)</u>	<u>(336,877)</u>
Accumulated losses at the beginning of the financial year	<u>(10,559,784)</u>	<u>(10,222,907)</u>
Accumulated losses at the end of the financial year	<u><u>(10,955,975)</u></u>	<u><u>(10,559,784)</u></u>
 <i>(ii) Consolidated statement of financial position</i>		
Current assets		
Cash	1,063,492	1,088,288
Receivables and other	147,930	226,954
Total current assets	<u>1,211,422</u>	<u>1,315,242</u>
Non-current assets		
Investments	1,122,900	1,147,388
Intercompany loans	125,558	125,558
Total non-current assets	<u>1,248,458</u>	<u>1,272,946</u>
Total assets	<u>2,459,880</u>	<u>2,588,188</u>
Current liabilities		
Payables	70,532	9,380
Provisions	72,338	74,357
Total current liabilities	<u>142,870</u>	<u>83,737</u>
Non Current liabilities		
Provisions	-	76,250
Total non current liabilities	<u>-</u>	<u>76,250</u>
Total liabilities	<u>142,870</u>	<u>159,987</u>
Net assets	<u>2,317,010</u>	<u>2,428,201</u>
Equity		
Contributed Equity	13,272,985	12,987,985
Accumulated losses	(10,955,975)	(10,559,784)
Total shareholders' equity	<u>2,317,010</u>	<u>2,428,201</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

	<b>Consolidated</b>		<b>Genesis Biomedical Ltd</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>10. PAYABLES (CURRENT)</b>				
Trade creditors	20,532	8,744	20,532	8,744
Other creditors	50,000	9,666	50,000	9,666
	<u>70,532</u>	<u>18,410</u>	<u>70,532</u>	<u>18,410</u>

Aggregate amounts payable to related parties:

Directors and director-related entities

- director related entities

	50,000	-	50,000	-
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**11a. PROVISIONS (CURRENT)**

Surplus lease space	16,671	60,357	16,671	60,357
Other provisions	55,667	14,000	55,667	14,000
<b>Total</b>	<u>72,338</u>	<u>74,357</u>	<u>72,338</u>	<u>74,357</u>

**11b. MOVEMENTS IN PROVISIONS (CURRENT)**

	<b>Consolidated</b>		<b>Genesis Biomedical Ltd</b>	
	<b>2005</b>		<b>2005</b>	
(i) Surplus Lease Space Provision				
Carrying amount at the beginning of the financial year	60,357		60,357	
Additional Provision	-		-	
Amounts utilised during the year	(43,686)		(43,686)	
Carrying amount at the end of the financial year	<u>16,671</u>		<u>16,671</u>	

(ii) Other Provisions

Carrying amount at the beginning of the financial year	14,000		14,000	
Additional Provision	55,667		55,667	
Amounts utilised during the year	(14,000)		(14,000)	
Carrying amount at the end of the financial year	<u>55,667</u>		<u>55,667</u>	

	<b>Consolidated</b>		<b>Genesis Biomedical Ltd</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>12a. PROVISIONS (NON CURRENT)</b>				
Surplus lease space	-	76,250	-	76,250

**12b. MOVEMENTS IN PROVISIONS (NON CURRENT)**

	<b>Consolidated</b>		<b>Genesis Biomedical Ltd</b>	
	<b>2005</b>		<b>2005</b>	
(i) Surplus Lease Space Provision				
Carrying amount at the beginning of the financial year	76,250		76,250	
Additional Provision	-		-	
Amounts written back due to assignment of sublease and reduction in future liability of operating lease.	(76,250)		(76,250)	
Carrying amount at the end of the financial year	<u>-</u>		<u>-</u>	



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**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

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<b>13. CONTRIBUTED EQUITY</b>	<b>Shares 2005</b>	<b>Shares 2004</b>	<b>\$ 2005</b>	<b>\$ 2004</b>
(a) Issued and paid up capital				
Fully paid ordinary shares	86,550,003	76,550,003	13,272,985	12,987,985
(b) Movement in shares on issue				
- Issued capital at beginning of financial year	76,550,003	76,550,003	12,987,985	12,987,985
- Shares issued on 11 <sup>th</sup> November 2004 pursuant to a placement by Directors at 3 cents per fully paid share	10,000,000	-	300,000	-
- Less expenses of the issue			(15,000)	-
Issued capital at the end of the financial year	86,550,003	76,550,003	13,272,985	12,987,985
(c) Share Options				
As at 30 June 2005, there are Nil (2004: 2,000,000) unissued ordinary shares in respect of which options were outstanding.				
(d) Terms and conditions of contributed equity				

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 2005 (cont'd)**

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	<b>Consolidated</b>		<b>Genesis Biomedical Ltd</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>14. ACCUMULATED LOSSES</b>				
Balance at beginning of year	(11,796,853)	(11,459,977)	(11,808,239)	(11,471,363)
Net Loss attributable to members of Genesis Biomedical Ltd	(386,191)	(336,877)	(396,191)	(336,877)
Balance at end of year	<u>(12,183,044)</u>	<u>(11,796,854)</u>	<u>(12,204,430)</u>	<u>(11,808,240)</u>
<b>15. OUTSIDE EQUITY INTEREST</b>				
Reconciliation of outside equity interest in controlled entities:				
Balance at beginning of year	(21,389)	(21,389)		
Deduct share of operating loss	-	-		
Add share of equity acquired during the year	-	-		
Less disposed during the year	-	-		
Balance at end of year	<u>(21,389)</u>	<u>(21,389)</u>		

The Company is the parent company of the entity in which there is an outside equity interest ("OEI Entity"). This OEI Entity is dormant and is not required to contribute to losses over and above existing equity contribution.

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

16. STATEMENT OF CASH FLOWS	Consolidated		Genesis Biomedical Ltd	
	2005 \$	2004 \$	2005 \$	2004 \$
(a) Reconciliation of cash flows from operations with operating loss after income tax				
Operating (loss) after income tax	(386,191)	(336,877)	(386,191)	(336,877)
Profit on sale of investments	(13,556)	(55,175)	(13,556)	(55,175)
Provision for diminution / (increment) in value of investments	(2,930)	139,599	(2,930)	139,599
Changes in assets and liabilities				
(Increase)/decrease in receivables	(8,196)	5,044	(8,196)	5,044
(Increase)/decrease in inventories	-	-	-	-
(Increase)/decrease in prepayments & deposits	92,172	22,210	92,172	22,210
(Decrease)/increase in creditors and accruals	56,200	(16,517)	56,200	(16,517)
(Decrease)/increase in provisions	(78,268)	(125,888)	(78,268)	(125,888)
Net cash flows used in operating activities	<u>(340,769)</u>	<u>(367,604)</u>	<u>(340,769)</u>	<u>(367,604)</u>
(b) Reconciliation of cash				
Cash balances comprise				
- cash at bank	<u>1,063,492</u>	<u>1,088,288</u>	<u>1,063,492</u>	<u>1,088,288</u>

At balance date the company and the consolidated entity had no financing facilities available.



**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005(cont'd)**

	<b>Consolidated</b>		<b>Genesis Biomedical Ltd</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>17. EXPENDITURE COMMITMENTS</b>				
(a) Lease expenditure commitments				
Operating leases (non-cancellable)				
Minimum lease payments				
- not later than one year	61,674	416,493	61,674	416,493
- later than one year and not later than five years	-	180,262	-	180,262
Aggregate lease expenditure contracted for at balance date	<u>61,674</u>	<u>596,755</u>	<u>-</u>	<u>596,755</u>
Aggregate expenditure commitments comprise:				
Amounts provided for:				
-Surplus lease space – current	16,671	60,357	16,671	60,357
- non-current	-	76,250	-	76,250
	<u>16,671</u>	<u>136,607</u>	<u>16,671</u>	<u>136,607</u>
Amounts not provided for:				
-rental commitments	45,003	460,148	45,003	460,148
Total not provided for	<u>45,003</u>	<u>460,148</u>	<u>45,003</u>	<u>460,148</u>
Aggregate lease expenditure contracted for at balance date	<u>61,674</u>	<u>596,755</u>	<u>61,674</u>	<u>596,755</u>

Operating lease relates to office accommodation, expiring in September. Amounts not provided for equate to the sub-lease commitments expected to be received by the Company from sub-tenants currently occupying the premises pertaining to the operating lease.

An additional operating lease relating to office accommodation expiring in April 2006 was assigned to the sub-tenant effective April 2005. The terms of the assignment still provide for the Company to be liable for all rent and outgoings due under the operating lease should the subtenant default on their obligations under the terms of the assigned lease. The potential net liability to the Company should the sub-tenant default is approximately \$45,000.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 2005 (cont'd)**

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**18. SEGMENT INFORMATION**

The consolidated entity operated in one business segment, being medical technology. The consolidated entity operated during the year in one geographical segment being Australia.

The group accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 2005 (cont'd)**

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**19. EARNINGS PER SHARE**

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

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Net Loss	(386,191)	(336,877)
<b>Adjustments:</b>		
Net loss attributable to outside equity interest	-	-
Losses used in calculating basic earnings per share	(386,191)	(336,877)
Losses used in calculating diluted earnings per share	(386,191)	(336,877)
	<b>Number of Shares</b>	<b>Number of Shares</b>
Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	82,878,770	76,550,003
<b>Effect of dilutive securities:</b>		
Share options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	82,878,770	76,550,003
Options on issue at year end not dilutive (based on the difference between the current share price and the exercise price of the options) and hence not used in the calculation of diluted earnings per share	-	2,000,000

No ordinary shares have been issued since the reporting date and up to completion of this financial report.



## 20. DIRECTOR AND EXECUTIVE DISCLOSURES

This note outlines the remuneration arrangements for Genesis's directors and provides the disclosures required by new accounting standard AASB 1046 'Directors and Executive Disclosures by Disclosing Entities'. This note also meets the remuneration reporting requirements of the Corporations Act 2001.

The disclosures in this Note cover the specified directors (including the Executive Chairman).

### Remuneration Committee

Throughout the financial year, the consolidated entity did not have a remuneration committee as the directors believed the size of the consolidated entity and the size of the Board did not at that stage warrant its existence.

Subsequent to 30 June 2005 the Directors have resolved to establish a remuneration committee. This committee will be made up of two directors, Mr Adrian Knight and Mr Roger Smith, who will also seek advice from independent consultants on trends in domestic executive and non-executive remuneration.

The intention of the Remuneration Committee is to establish Genesis's remuneration policies and practices and to ensure they match the group's objectives. It is intended that the Committee will make recommendations to the Genesis Board on the proposed Chief Executive Officer's total remuneration package, review the Non Executive remuneration and review any non-executive director share plan that may be proposed.

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

#### (i) Specified directors

R Gilmour	Chairman (executive)
E Correia	Director (non-executive)
R Smith	Director (non-executive): appointed 21 <sup>st</sup> February 2005
A Knight	Director (non-executive): appointed 21 <sup>st</sup> February 2005
A Davey	Director (non-executive): resigned 22 <sup>nd</sup> February 2005

#### (ii) Specified executives

Nil

### (b) Remuneration of Specified Directors and Specified Executives

Dr Robert Gilmour, as Executive Chairman is currently the only executive of the Company and has been remunerated for this role as follows:

- Base Director Fees; and
- Agreed Consultancy Fees.

Subsequent to 30 June 2005 the Board has agreed to include an additional fee for his role as Chairman.

The remaining Directors are all considered Non-Executive Directors.

Remuneration to the Non Executive Directors was by way of Directors Fees, with the level of such fees having been set by the Board to an amount it considers to be commensurate for a company of Genesis's size and level of activity.



## 20. DIRECTOR AND EXECUTIVE DISCLOSURES CONTD...

## (b) Remuneration of Specified Directors and Specified Executives contd...

	Primary Salary and Base Fees	Consulting Fees	Non Monetary benefits	Post Employment Superan- nuation	Retirement Benefits	Equity Options	Other Directors and Officers Insurance	Total
<b>Specified Directors</b>								
<b>R Gilmour</b>								
2005	\$25,000	\$90,244	-	-	-	-	\$12,868	\$128,112
2004	\$25,000	-	-	-	-	-	\$11,291	\$36,291
<b>E Correia</b>								
2005	\$25,000	-	-	-	-	-	\$12,868	\$37,868
2004	\$25,000	-	-	-	-	-	\$11,291	\$36,291
<b>A Knight</b>								
2005	\$8,850	-	-	-	-	-	\$4,560	\$13,410
2004	-	-	-	-	-	-	-	-
<b>R Smith</b>								
2005	\$8,850	-	-	-	-	-	\$4,560	\$13,410
2004	-	-	-	-	-	-	-	-
<b>A Davey</b>								
2005	\$16,200	-	-	-	-	-	\$8,344	\$24,544
2004	\$24,024	-	-	-	-	-	\$10,858	\$34,882
<b>Total Remuneration: Specified Directors</b>								
2005	\$83,900	\$90,244	-	-	-	-	\$43,200	\$217,344
2004	\$74,024	-	-	-	-	-	\$33,440	\$107,464

## (c) Option holdings of specified directors

Specified Directors	Balance at beginning of period 1 July 2004	Granted as Remun- eration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2005	Total Total	Vested at 30 June 2005	
							Not Exercisable	Exercise able
R Gilmour	-	-	-	-	-	-	-	-
E Correia	-	-	-	-	-	-	-	-
A Knight	-	-	-	-	-	-	-	-
R Smith	-	-	-	-	-	-	-	-
A Davey	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-

**20. DIRECTOR AND EXECUTIVE DISCLOSURES CONTD....****(d) Shareholdings of Specified Directors**

	<b>Balance at 1 July 2004/ Appointment Date</b>	<b>Granted as Remuneration</b>	<b>On Exercise of Options</b>	<b>Net Change Other</b>	<b>Balance at 30 June 2005/Resignation Date</b>
<b>Specified Directors</b>					
R Gilmour	4,000,000	-	-	-	4,000,000
E Correia	125,000	-	-	-	125,000
A Knight	-	-	-	-	-
R Smith	5,140,523	-	-	-	5,140,523
A Davey	2,004,154	-	-	-	2,004,154
<b>Total</b>	<b>11,269,677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,269,677</b>

All equity dealings have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

	<b>Consolidated</b>		<b>Genesis Biomedical Ltd</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>21. AUDITOR'S REMUNERATION</b>				
Amounts received or due and receivable By Ernst & Young for:				
- An audit and review of the financial report of the entity and any other entity in the consolidated entity	24,000	24,000	24,000	24,000
	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>

**22. RELATED PARTY DISCLOSURES****Other related party transactions**

Transactions with director-related entities

The consolidated entity paid to Cardrona Capital Pty Ltd, a company of which Mr E Correia is a director, Company secretarial financial control and due diligence review fees totalling \$86,700 (2004: \$72,000).

The consolidated entity paid to Bodyworks Holdings Limited an amount of \$90,244 (2004: Nil) in consulting fees. Refer to page 11 setting out the basis upon these consulting fees are paid.



## 23. SUBSEQUENT EVENTS

### **Signs Fertility Technology Agreement**

On 18 July 2005 the Company announced to the market that it entered into agreements upon which GBL may purchase the issued capital of a New Zealand based bio-technology company, involved in the development of fertility testing devices for use in both human healthcare and veterinary markets.

The commercial terms of the transaction are the provision by Genesis to MBIL of a Loan Facility of up to AUD\$250,000 to be applied against an agreed development budget, along with Genesis having the right to purchase within a twelve month period the entire issued capital of MBIL for a consideration of AUD\$450,000 comprising a cash component of \$200,000 and \$250,000 in Genesis equity.

Subsequent to 30 June 2005, at the date of this Report, Genesis had provided approximately \$149,391 under the terms of the Loan Facility Agreement.

### **Capital Raising**

The Appendix 4E released to the market on the 31st August 2005 contained details of a proposed rights issue the Company was contemplating. On the 16th September 2005, the Company advised the market that due to the fact that it is currently assessing an investment opportunity, it has not been in a position to proceed with its previously announced rights issue in accordance with the previously indicated time frames.

If a decision is made to proceed with the investment opportunity currently under review, the Company's funding requirements may change and hence the terms, conditions and timing of the proposed rights issue or the nature of the capital raising may also change.

As at the date of this report the Company is not sufficiently advanced in the assessment of the opportunity to provide any specific detail to the market. The Company will keep the market informed as to whether an agreement is reached in relation to this opportunity and the subsequent impact this may have on the Company's capital raising plans.

Other than disclosed there are no other matters or circumstances that have arisen since the end of the financial year which 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 subsequent financial years.



## 24. FINANCIAL INSTRUMENTS

### (a) Terms, conditions and accounting policies

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

	<b>RECOGNISED FINANCIAL INSTRUMENTS</b>	<b>BALANCE SHEET NOTES</b>	<b>ACCOUNTING POLICIES</b>	<b>TERMS AND CONDITIONS</b>
<b>(i) FINANCIAL ASSETS</b>				
Cash at Bank		16(b)	Carried at nominal amount. Interest is recognised in the statement of financial performance when earned.	Available on call at effective interest rates of 2.1% pa (2004: 4.3% pa).
Receivables		5	Receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are normally on 30-day terms.
Security deposits		7	Security deposits are lodged with the Bankers to the consolidated entity, securing bank guarantees provided. Deposits are carried at nominal value.	Average Interest rate of 5.38% pa (2004: 5.02% pa)
Shares and options		8	Listed shares and options are recorded at the lower of cost or recoverable amount	No dividends are expected to be received.
<b>(ii) FINANCIAL LIABILITIES</b>				
Payables (current)		10	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30-day terms.



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**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2005 (cont'd)**

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**(iii) EQUITY**

Ordinary shares	13(a)	Ordinary share capital is recognised at the value of the amount received, less direct costs incurred in raising the funds.	The consolidated entity has issued 86,550,003 ordinary shares fully paid. Details of shares issued and the terms and conditions of options issued over ordinary shares at balance date are set out in Note 12.
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**(b) Net fair values of financial assets and liabilities**

There is no difference between the aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, recorded at balance date and the carrying values of the financial assets and financial liabilities recorded at balance date.

**(c) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities****Recognised Financial Instruments**

Cash and cash equivalent: The carrying amount approximates fair value because of their short-term to maturity.

Security deposits are held by the consolidated entity's bank, securing bank guarantees in relation to leased office space. The carrying amount approximates fair value.

Receivables and payables: The carrying amount approximates fair value.

Inventories: The carrying amount approximates fair value.

Listed and unlisted shares: The carrying amount approximates fair value.

**NOTES TO THE FINANCIAL STATEMENTS****30 JUNE 2005 (cont'd)****24. FINANCIAL INSTRUMENTS (Cont)****(d) Interest rate risk exposure**

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

<b>FIXED INTEREST RATE MATURING IN</b>											
<b>FINANCIAL INSTRUMENT</b>	<b>FLOATING INTEREST RATE</b>		<b>1 YEAR OR LESS</b>		<b>1 TO 5 YEARS</b>		<b>NON-INTEREST BEARING</b>		<b>TOTAL</b>		<b>WEIGHTED AVERAGE EFFECTIVE INTEREST RATE</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	
<b>(i) FINANCIAL ASSETS</b>											
Cash	61,926	49,204	1,001,566	1,039,084	-	-	-	-	1,063,492	1,088,288	5.19%
Receivables	13,148	9,029	-	-	-	-	-	-	13,148	9,029	N/A
Security deposits/Prepayments	134,782	226,954	-	-	-	-	-	-	134,782	226,954	5.38%
Shares & options	-	-	-	-	-	-	-	14,488	-	14,488	N/A
<b>Total Financial Assets</b>	<b>209,856</b>	<b>285,187</b>	<b>1,001,566</b>	<b>1,039,084</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,488</b>	<b>1,211,422</b>	<b>1,338,759</b>	
<b>(ii) FINANCIAL LIABILITIES</b>											
Payables (current)	70,532	18,410	-	-	-	-	-	-	70,532	18,410	N/A
<b>Total Financial Liabilities</b>	<b>70,532</b>	<b>18,410</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,532</b>	<b>18,410</b>	

(e) The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.



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## NOTES TO THE FINANCIAL STATEMENTS

### 30 JUNE 2005 (cont'd)

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#### 25. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Genesis Biomedical Limited (Genesis) has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (AIFRS). The company has allocated internal resources to conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS. As a result of these procedures the company believes that the impact of the introduction of AIFRS will be minimal to the financial statements in their present form. As Genesis has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to AIFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of AIFRS in the future, and is required when Genesis prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

#### DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Genesis Biomedical Ltd, I state that:

- (1) In the opinion of the directors:
  - (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
    - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 9 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Emmanuel Correia  
Non Executive Director

27 September 2005

## Independent audit report to members of Genesis Biomedical Limited

### Scope

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

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Genesis Biomedical Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

#### *Audit approach*

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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

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

**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

**Audit opinion**

In our opinion, the financial report of Genesis Biomedical Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of Genesis Biomedical Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Christopher George  
Partner

Sydney  
27<sup>th</sup> September 2005



## ASX ADDITIONAL INFORMATION

The following additional information is required by the Australian Stock Exchange Limited and was the status on 30<sup>th</sup> June 2005.

### Shareholding

(a) Distribution of ordinary shareholders and option holders:

Category (size of Holdings)	Number of Ordinary Shareholders	Number of Option holders
1 - 1,000	23	-
1,001 - 5,000	161	-
5,001 - 10,000	230	-
10,001 - 100,000	481	-
100,001 and over	118	-
	<u>1,013</u>	<u>-</u>

(b) The number of shareholders holding less than marketable parcels is 436.

(c) 20 largest shareholders at 30 June 2005 - fully paid ordinary share capital.

Name	Number of Ordinary Shares	% of Issued Ordinary Shares Held
1. Aquarius Fund Managers Pty Ltd	6,000,000	6.93
2. Biomed Trust Limited	4,000,000	4.62
3. Each Nominees Pty Ltd	4,000,000	4.62
4. Regent Projects Holdings Ltd	3,250,000	3.76
5. Mr Chris Carr and Mrs Betsy Carr	3,000,000	3.47
6. Monacan Nominees Pty Ltd	2,586,667	2.99
7. Pacific Custodian Limited	2,079,056	2.40
8. Mr Edward Coult	1,584,564	1.83
9. Amber Management Pty Ltd	1,380,000	1.59
10. Yin Lin Kok	1,250,000	1.44
11. Kwan Tee Holdings Pty Ltd	1,250,000	1.44
12. Key Jade Holdings Pty Ltd <Keyjade S/F A/C>	1,128,500	1.3
13. Westmed Development Capital Limited	1,028,147	1.19
14. Mr George Giorgas	1,000,000	1.16
15. Ian Sandover & Associates	999,467	1.15
16. Keyjade Holdings Pty Ltd	960,000	1.11
17. NJP Nominees Pty Ltd	820,000	1.95
18. Camira Holdings Pty Ltd	800,000	1.92
19. Highbound Holdings Pty Ltd	800,000	0.92
20. Halith Pty Ltd	740,523	0.86
	<u>38,656,924</u>	<u>46.65</u>

**ADDITIONAL INFORMATION (cont'd)**

- (d) The names of the substantial shareholders listed in the Genesis Biomedical Ltd register as at 30<sup>th</sup> June 2005 were:

Shareholder	Ordinary Shares	% Held
1. Aquarius Fund Managers Pty Ltd	6,000,000	6.93
	6,000,000	6.93

- (e) **Option holders**

Option holder	Options	% Held
Nil	<u>Nil</u>	<u>Nil</u>

- (f) **Restricted securities**

There are no longer any restricted securities on issue by the company.

- (g) **Voting rights**

No restrictions. On a show of hands every member or proxy present shall be entitled to one vote unless a poll is called in which case every share shall have one vote.

- (h) **On market buy back**

There has been no on market buy back of the Company's shares during the financial year.

- (i) **Stock Exchange Listing**

Quotation has been granted for all the ordinary shares, of the consolidated entity on all Member Exchanges of the Australian Stock Exchange Limited.

- (j) **Director's Interest in Equity**

The interests of each director in the share capital of Genesis Biomedical Ltd as disclosed by the register of director's shareholdings.

	Beneficially Held		Non Beneficially Held	
	Ordinary Shares	Options	Ordinary Shares	Options
R F Gilmour	-	-	4,000,000	-
E Correia	125,000	-	-	-
A Knight	-	-	-	-
R Smith	-	-	5,140,523	-



## **CORPORATE GOVERNANCE STATEMENT**

### **30 JUNE 2005**

The Board of Directors of Genesis Biomedical Ltd is responsible for the corporate governance of the consolidated entity. The board guides and monitors the business and affairs of Genesis Biomedical Ltd on behalf of the shareholders by whom they are elected and to whom they are accountable. In considering the issue of corporate governance the board are cognisant of the size of its operations and the fact that the board consists presently of four members, Dr Robert Gilmour currently undertaking an Executive Chairman role with the remaining three directors all being Non Executive Directors.

#### **Composition of the Board**

The composition of the board is determined in accordance with the following principles and guidelines:

- the board should comprise directors with an appropriate range of qualifications and expertise; and
- the board shall meet at least every second month and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The directors in office at the date of this statement and there respective terms in office are as follows:

<b>Name</b>	<b>Position</b>	<b>Term in Office</b>
Robert F Gilmour	Executive Chairman	4 years 2 months
Emmanuel Correia	Non-executive Director	3 years 5 months
Adrian Knight	Non-executive Director	4 months
Roger Smith	Non-executive Director	4 months

Please refer to page 6 of the 2005 Annual Financial Report for the relevant skills and experience of each of these directors.

#### **Board Responsibilities**

As the board acts on behalf of the shareholders and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

#### **Corporate Governance – Best Practice Recommendations**

The format of the Corporate Governance Statement has changed in comparison to the previous year due to the introduction of the ASX Corporate Governance Council's best practice recommendations. In accordance with the Council's recommendations, the Corporate Governance Statement must now contain specific information, and also report on the company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted, together with the reasons why they have not been adopted. Genesis's corporate governance principles and policies are therefore structured with reference to the Corporate Governance Council's best practice recommendations, which are as follows:

- (i) Lay solid foundations for management and oversight;
- (ii) Structure the Board to add value;
- (iii) Promote ethical and responsible decision making;
- (iv) Safeguard integrity in financial reporting;
- (v) Make timely and balanced disclosure;
- (vi) Respect the rights of shareholders;
- (vii) Recognise and manage risk;
- (viii) Encourage enhanced performance;
- (ix) Remunerate fairly and responsibly;
- (x) Recognise the legitimate interests of stakeholders.



Genesis Biomedical Limited's corporate governance practices were in place throughout the year ended 30<sup>th</sup> June 2005. As set out below, with the exception of the departures from the ASXCGC recommendations in relation to the independence of the Board, the nomination and audit committee and board performance evaluation, the corporate governance practices of Genesis Biomedical Limited were compliant with the Council's best practice recommendations.

## Independence

ASX Corporate Governance Council ("ASXCGC") best practice recommendation 2.1 requires a majority of the Board to be independent directors and 2.2 recommends the chairperson should be an independent director.

ASXCGC provides a definition of independence to include being independent of management and free of any other business relationships that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. In accordance with this definition and further independence guidelines outlined in ASXCGC best practice recommendations, the following Genesis directors are not considered to be independent:

<b>Name</b>	<b>Position</b>
Mr E Correia	Executive Chairman
Mr R Gilmour	Non – Executive Director
Mr Roger Smith	Non – Executive Director
Mr Adrian Knight	Non – Executive Director

Mr E Correia is considered not to be independent by virtue of being a material adviser to the Company within the last three years and Mr R Gilmour is considered not to be independent by virtue of being employed in an executive capacity within the previous three years.

Mr Smith is considered not to be independent by virtue of his material shareholding in the Company, similarly Mr Adrian Knight is considered not to be independent due to him representing a material shareholder of the Company and having an interest in that material shareholder.

Mr Correia has been appointed to his position due to his extensive knowledge of the Company and Mr Gilmour due to his considerable experience with Genesis and its technologies over many years.

Mr Knight has been appointed to the Board for his expertise in international marketing, particularly relevant should some of the Company's planned product commercialisation objectives be achieved.

The Board acknowledges the best practice requirement to maintain a majority independent board, however believes that given the Company's size and operational status, the expense associated with establishing such a board profile would not at this stage provide any real benefit to the operation of the Company. This Board structure will be reviewed at the appropriate stages of the Company's development.

When assessing the independence of directors, the ASX recommendations refer to materiality thresholds throughout the independence criteria, specifically in reference to evaluating what may constitute a material relationship.

The Board has adopted the following quantitative thresholds to be used as a guide when considering amounts in context of determining the materiality of certain relationships:

- (i) an amount which is equal to or greater than 10% of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary;
- (ii) an amount which is equal to or less than 5% of the appropriate base amount may be presumed not to be material, unless there is evidence, or convincing argument to the contrary;

As part of discharging its obligations as directors of the Company, the Directors will, from time to time need to seek independent professional advice at the expense of the Company. Accordingly, the board has agreed that where issues or matters arise in relation to the running of the Company, that in the opinion of the directors require independent professional advice to assist in the decision making surrounding the resolution of these issues, the board may engage such professional advice providing it is on standard commercial terms for advice of its nature.



### **Nomination Committee**

ASX Corporate Governance Council (“ASXCGC”) best practice recommendation 2.4 recommends the Board should establish a nomination committee.

The Board has not established any such committees at this point in the consolidated entity’s development, it is considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible.

### **Audit Committee**

ASX Corporate Governance Council (“ASXCGC”) best practice recommendation 4.2 recommends the Board should establish an audit committee, 4.3 outlines the recommended structure of the audit committee and 4.4 recommends the audit committee should have a formal charter.

The Board has not established any such committees at this point in the consolidated entity’s development, it is considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible. Although there is no Audit Committee, formal meetings are held between nominated directors and the external auditor, to discuss the findings of the half year review and the year end audit.

### **Board Performance Evaluation**

ASX Corporate Governance Council (“ASXCGC”) best practice recommendation 8.1 requires the disclosure of the process for performance evaluation of the board, its committees and individual directors, and key executives. Given the current size of the Genesis Board and level of activity of the Company, the Board does not currently have a formal process for the evaluation of individual Directors and would consider the implementation of one at this particular point as impractical. The Directors do consider and gauge the overall performance of the Board in context of the trading price of its shares on the ASX on a regular basis.

### **Remuneration Committee**

ASX Corporate Governance Council (“ASXCGC”) best practice recommendation 9.2 recommends the Board should establish a remuneration committee.

Throughout the financial year the Board had not established any such committees as at this point in the consolidated entity’s development, it was considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible. Remuneration to the Non Executive Directors was by way of base Directors Fees only, with the level of such fees, having been set by the Board to an amount it considers to be commensurate for a company of Genesis’s size and level of activity. There is currently no link between performance and remuneration. Further there are no schemes for retirement benefits in existence.

Subsequent to the 30th June 2005 the Directors have resolved to establish a remuneration committee. This committee will be made up of two directors, Mr Adrian Knight and Mr Roger Smith, who will also seek advice from independent consultants on trends in domestic executive and non-executive remuneration.

The intention of the Remuneration Committee is to establish Genesis’s remuneration policies and practices and to ensure they match the group’s objectives. It is intended that the Committee will make recommendations to the Genesis Board on the proposed Chief Executive Officer’s total remuneration package, review the Non Executive remuneration and review any non-executive director share plan that may be proposed.