LIPA PHARMACEUTICALS LTD

(ABN 21 070 106 526)

APPENDIX 4E (Rule 4.2A)

PRELIMINARY FINAL REPORT

For the year ended 30 June 2007

RESULTS FOR ANNOUNCEMENT TO THE MARKET
(All comparisions to year ended 30 June 2006)

Background Information

Lipa Pharmaceuticals Limited ("Lipa Pharmaceuticals") is a TGA licensed pharmaceutical manufacturer and the leading contract manufacturer of complementary healthcare products in Australia. Lipa Pharmaceuticals was established in 1995 and floated on the ASX in 2004.

In 2005, Lipa Pharmaceuticals completed the construction of a soft gelatin production facility with two softgel production lines and commenced commercial operations from February 2006. During the year the company installed a further 2 softgel lines.

During the second half of this financial year the directors announced that the company was conducting a review of strategic options, designed to enhance shareholder value. Citi was appointed as financial advisor and Blake Dawson Waldron was appointed as legal advisor. The strategic review was completed after the close of the financial year and resulted in a Scheme Implimentation Agreement being executted with CK Life Sciences Inc.to acquire Lipa's shareholding for $0.95 per share.

	$'000	up/down	% movement
Revenues from ordinary activities	88,123	Up	12.7%
Net profit after tax from ordinary activities attributable to members	5,109	Down	-12.9%
Net profit for the period attributable to members	5,109	Down	-12.9%

Brief explanation of Revenue and Net Profit

Profit from ordinary activities after income tax attributable to shareholders for the year is $5.109 million (2006: $5.868 million) recording a decrease of 13% over previous year. The company experienced sales growth over the prior year, however continued to experience competitive pressure in the market place and margins were under pressure.

While the revenue from softgel sales showed steady growth during the year, the fixed costs and increased depreciation associated with the new facility had an unfavourable impact on the profit from ordinary activities.

Dividend Information	amount per share (cents)	franked amount per share (cents)	tax rate for franking
Final dividend	Nil	Nil	
Interim Dividend	2.18	2.18	30%

Final Dividend Dates

Ex dividend date	N/A
Record date	N/A
Payment date	N/A

	30 Jun 07	30 Jun 06
Net tangible assets per security	$0.41	$0.39

Brief explanation of Dividend

As outlined in the market release detailing the offer made by CK Life Sciences Inc, dated 3rd August 2007, provided the scheme of arrangement is approved, no final dividend will be declared.

Lipa Pharmaceuticals
Annual Report 2007

LIPA PHARMACEUTICALS

LIPA PHARMACEUTICALS LIMITED

ABN 21 070 106 526

ANNUAL REPORT 2007

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Chairman's Report

Dear shareholder,

On behalf of the Board of Directors, I present Lipa Pharmaceuticals' Annual Report for the 2007 financial year.

Over the past year, Lipa Pharmaceuticals has implemented a number of significant operational and strategic initiatives aimed at improving the company's competitive position and value to shareholders.

Key elements of these initiatives were leveraging the company's entry into the soft gelatin product market to drive improved sales from new and existing customers; enhancing the company's sales and marketing efforts; implementing a number of operational improvements as part of SPRING, the company's continuous improvement programme; and investigating options to expand into new markets.

Reflecting improvements in the company's sales and marketing efforts, I am pleased to report the company achieved its highest annual sales revenue of $88 million for the 2007 financial year. This result is a 13% improvement from the prior financial year.

In the second half of the year, the company was pleased to announce it had renewed its contract with one of its major customers, Blackmores Limited, for a further two years to supply various complementary healthcare products. The renewal of this contract evidenced the strength of Lipa Pharmaceuticals' product and service offerings together with our commitment to customer service.

Unfortunately, the company's improved sales performance was not reflected in its profitability. Lipa Pharmaceuticals gross profit margin continued to decline, falling to 17% for the year from 20% in 2006. Net profit after tax for the 2007 financial year was $5.1 million, compared to $5.9 million in the 2006 financial year.

As I indicated in last year's annual report, while recovery in our margins may take some time, we are taking active steps to address our operational efficiency and competitive position.

Specifically, during the 2007 financial year the company began implementing new arrangements to improve the efficiency of the company's supply chain, undertook an investigation into direct sourcing of raw materials from Asia, and installed new product coating pans, removing a key bottle neck in our manufacturing line and lowering production costs.

On 17 May 2007, the Board of Lipa Pharmaceuticals announced it had commenced a review of strategic options to enhance company value, with the assistance of Citigroup. The commencement of this review followed a belief by the Board that the company's share price performance over the past 12 months was not reflective of the true value of the business.

This review of strategic options led to Lipa Pharmaceuticals entering into a Scheme Implementation Agreement with CK Life Sciences Int'l.,Inc. for it to acquire all of the issued shares in Lipa Pharmaceuticals for 95 cents in cash per share. Details of the Scheme of Company Arrangement are included in a booklet, sent to shareholders recently. Your directors unanimously support the proposed transaction in the absence of a superior proposal emerging and recommend shareholders vote in favour of the Scheme.

In accordance with the Scheme Implementation Agreement, the Directors have not declared a final dividend in respect of the 2007 financial year.

Following the end of the financial year, the company's Chief Executive Officer, Mr James McBrayer advised the Board of his resignation from the company to pursue challenges outside of the company.

With the strength and depth of Lipa Pharmaceuticals' senior management team, the Board was pleased to be in a position to announce on 13 August 2007 the appointment of Lipa Pharmaceuticals' Operations and Supply Chain Director, Mr. Dusko Pejnovic, as the company's new Chief Executive Officer. Mr. Pejnovic's initial focus will be to leverage our strong market position and reputation with our customers and suppliers to expand the profitability of the company.

Finally, I would like to thank all our management and staff for their continued focus on customer service, quality and compliance.

John Harkness
Chairman

Commentary on Results

Lipa Pharmaceuticals continued to position itself to take advantage of opportunities within the complementary healthcare, prescription, and OTC markets. The company has maintained the leading contract supplier position and successfully implemented significant operational changes within the business.

Sales revenue of $88 million was 13% higher than the revenue for 2006. Net profit after tax was $5.1 million, with the Earning per Share (EPS) of 5.38 cents. The company experienced sales growth over prior years, however continued to experience competitive pressure in the market and margins were under pressure. Management initiated labour programs with some success.

The following significant changes in the state of affairs of the Company occurred during the financial year:

- On 28 August 2006, the Company announced its full year results of $5.9 million ($9.9 million for 2005) profit to the market.
- On 20 September 2006, the Company announced a final dividend of 2.94 cents per share and issued 1,627,526 ordinary shares at $0.71 each to shareholders under the Company's Dividend Re-investment Plan (DRP).
- On 16 October 2006, the Company announced the appointment of a new Chief Executive Officer to replace the joint co-founder, Mr Gorge Jovanov, who was stepping down as Managing Director at the Annual General Meeting on 23rd November 2006. The announcement also advised that fellow joint co-founder; Mrs Stanika Jovanova would also step down as an executive Director.
- On 14 November 2006, the Company advised that it would increase its soft gelatin production capacity in 2007 by the acquisition of a further two soft gelatin manufacturing lines.
- On 28 February 2007, the Company announced its half year results of $2.6 million ($2.6 million Dec 2005) profit to the market.
- On 2 March 2007, the Company announced an interim dividend of 2.18 cents per share and issued 184,134 ordinary shares at $0.73 each to shareholders under the Company's Dividend Re-investment Plan (DRP).
- On 15 May 2007, the Company announced the renewal of a supply agreement with one of its major customers, Blackmores Limited, for 2 years commencing 14 May 2007.
- On 17 May 2007, the Company advised the market that the Directors would be conducting a strategic review of the company, designed to unlock the inherent value of the business and enhance shareholder value.

Income Statement

The profit after income tax attributable to shareholders for the year is $5.1 million (2006: $5.9 million) recording a decrease of 13% over previous year. The decrease is mainly due to increased margin pressure and higher fixed costs associated with the new soft gelatin production facility.

Balance Sheet

Total assets increased by $4.3 million to $86.2 million representing a net increase of 5.2%, mainly attributed to the following:

- Capital expenditure relating to the soft gelatin production facility was $2.2 million, while other capital expenditure for the year was $2.2 million.
- Cash assets showed a net increase of $1.2 million, mainly due to better collections from debtors.
- Inventories showed an increase of $1 million compared to the previous year. This was partly due increase in raw material stocks to cater for the soft gelatin production requirements.

Total liabilities increased by $1.9 million to $47.1 million mainly due to the following:

- Increase in trade and other payables of $1.6 million resulting from the increase in inventory holdings.
- Increase in deferred tax liabilities of $0.3 million.

Equity increased by $2.4 million on the 2006 balance to $39 million at 2007. Share capital increased by a net of $1.3 million, resulting from the issue of shares to shareholders who participated in the Dividend Re-investment Plan for the final dividend for 2006, and interim dividend payment for 2007.

Net debt to equity ratio was 57.7% in 2007, an improvement of 6.8 percentage points over 64.5% in 2006. This has resulted from a 4.8% reduction in net debt as cash assets showed $1.2 million improvement during the year, while equity showed a 6.5% growth in 2007.

Cash Flow Statement

Cash assets position recorded a improvement of $1.2 million, resulting from improved collections during the year resulting from higher sales, and lower tax payments during the year. $4.4 million was spent during the year on capital expenditure, while $2.8 million was distributed to the share holders in the form of dividend payments. Working capital increased during the year by $0.4 million.

Corporate Governance

Introduction

Lipa Pharmaceuticals Limited operates in a highly regulated industry with close regulatory scrutiny. We have developed an organisational culture, which incorporates good governance practice by maintaining a high standard of legislative compliance and ethical behaviour. Our Corporate Governance policies and practices outline the measures that we have chartered to act ethically, openly, fairly and diligently when promoting the interests of shareholders, employees, clients and the broader community.

All Corporate Governance policies and practices discussed below are disclosed or summarised on the company's website www.lipa.com.au in the "Corporate Governance" section of the Investor Centre.

<table>
<tr><th colspan="2">ASX CORPORATE GOVERNANCE COUNCIL'S BEST PRACTICE PRINCIPLES AND RECOMMENDATIONS</th></tr>
<tr><th colspan="2">Principle 1 : Lay solid foundations for management and oversight</th></tr>
<tr><th>Recommendation</th><th>Lipa's Compliance</th></tr>
<tr><td>1.1 Formalise and disclose the functions reserved to the board and those delegated to management.

Lipa's Compliance: Comply</td><td>Lipa Pharmaceuticals' corporate governance framework is designed to:
• Enable the board to provide strategic guidance for the company and effective oversight of management;
• Clarify the respective roles and responsibilities of board members and senior executives in order to facilitate board and management accountability to both the company and shareholders; and
• Ensure a balance of authority so that no single individual has unfettered powers.

Board Charter

The Lipa Pharmaceuticals' Board Charter forms part of the Corporate Governance Policies which were adopted by the Board on 17 June 2004.

The Board Charter confirms the Board's overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interest of Lipa Pharmaceuticals' shareholders, employees, customers and the community. The Charter also outlines the role, powers and responsibilities reserved by the Board, including:
• Overseeing and charting the direction, strategies and financial objectives of the Company;
• Approving any issues of securities or significant changes to the Company's organisational structure;
• Monitoring and assessing management's performance;
• Approving and monitoring financial and other reporting, capital expenditure and management;
• Monitoring the Company's compliance with regulatory requirements and ethical standards;
• Determining the remuneration and conditions of service for executive directors and senior executives;
• Appointing and reviewing the performance of the Chief Executive Officer;
• Overseeing the appointment of senior executives;
• Exercising any discretion that it may have delegated to the CFO or senior management, from time to time; and
• That the Board should comprise a majority of independent non-executive directors – as discussed in Principle 2.

Each Director has the right to seek independent professional advice, at the Company's expense, in order to fulfil their duties as Director of the Company, with the prior consent of the Chairperson which may not be unreasonably withheld.

There is a clear segregation of responsibilities between the Board and management. Lipa recognises that regular review of the balance of responsibilities is appropriate as the company grows.

Within the Company, the roles of the Chairman and Chief Executive Officer are separated. The Chairman is responsible for leading the Board in its duties, facilitating effective discussions at board meetings, ensuring procedures are in place to evaluate board performance and overseeing shareholder communications. The Chief Executive Officer is responsible for the efficient and effective management of the day to day activities of the company and keeping the Board informed of any matters of a material nature which may affect the operations of the company.</td></tr>
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Principle 2 : Structure the board to add value	
Recommendation	Lipa's Compliance
2.1 A majority of the Board should be independent directors Lipa's Compliance: Comply	The Board Charter outlines the circumstances under which a director is regarded to be independent. These circumstances incorporate the definition of independence in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations and are summarised below. A director is regarded to be independent if: • The Board resolves that the director has no material relationship with Lipa Pharmaceuticals; • The director is not a substantial shareholder of Lipa Pharmaceuticals or an officer of, or otherwise directly associated with a substantial shareholder of Lipa Pharmaceuticals; • The director is not, and has not been within the previous three years: a. Employed by Lipa Pharmaceuticals, or a company in the Lipa Pharmaceuticals as a principal or a material professional adviser or a material consultant to Lipa Pharmaceuticals; or b. Employed by or a partner in any firm that in the past three years has been Lipa Pharmaceuticals' external auditor; • No immediate family member of the director is an executive officer of Lipa Pharmaceuticals or, except where the immediate family member has died or become incapacitated, has been an executive officer of Lipa Pharmaceuticals within the previous five years. Directors are required to disclose any material contracts or matter of substance, which will have the effect of changing their position of independence. The independence of directors is then re-assessed. Mr John Harkness, Mr Philip Johnston and Mr Rod McGeoch satisfy the requirements of independence as indicated above and are considered by the Company to be independent directors. Therefore a majority of the five members of the Board are independent directors.
2.2 The Chairperson should be an independent director. 2.3 The roles of the Chairperson and the Chief Executive Officer should not be exercised by the same individual. Lipa's Compliance: Comply	Lipa Pharmaceuticals acknowledges that the Chairman's role is vital in leadership and efficient conduct of the board and has therefore appointed an independent director, Mr John Harkness as Chairman and Mr Gorge Jovanov as Chief Executive Officer thus ensuring the separation of the two roles. During the year, Mr. James McBrayer, was appointed as Chief Executive Officer from 16th October 2006.
2.4 The Board should establish a nomination committee. Lipa's Compliance: Comply	To assist in the effective execution of its responsibilities the Board has established a Nominations, Remuneration & Corporate Governance Committee. Details of the members of the Committee and their attendance at meetings may be found in the Directors' Report.
2.5 Provide the information indicated in Guide to reporting on Principle 2. Lipa's Compliance: Comply	There is a procedure agreed by the Board, for directors to take independent professional advice at the expense of the Company. The term of office and skills, experience and expertise held by each director in office at the date of this Annual Report may be found in the Directors' Report. Further required information has been disclosed within this Statement, on Lipa's website and/or within the Directors' Report.

Principle 3 : Promote ethical and responsible decision-making	
Recommendation	Lipa's Compliance
3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. Lipa's Compliance: Comply	Lipa Pharmaceuticals recognises the importance of ethical and responsible decision-making and in June 2004 the Board adopted: • Directors' Code of Conduct, and • Directors' Disclosure Policy and Policy for Handling Conflicts of Interest to clarify the standards of ethical behaviour required of directors. The Code of Conduct is based on the following six principles: 1. Fair Dealing - A director must act honestly, with integrity and uphold high ethical standards in all commercial dealings. 2. Corporate opportunities - Directors must separate their personal or other business dealings from their dealings as a director of Lipa and must not use any information obtained in the course of their duties for the benefit of themselves or another. 3. Confidentiality - Confidential information received by a Director in the course of their duties must not be disclosed to third parties without the authorisation of all parties or where disclosure is required by law. 4. Conflicts of Interest - A director has an obligation to promptly disclose private or business interests or any other matters which may lead to a potential or actual conflict of interest or which may impair their independence. 5. Compliance with laws and regulations at all times. 6. Proper use of Company's assets - A director must only use resources or assets of the Company in accordance with the agreed terms of use and must refrain from using their official capacity to gain undue advantage or material personal gain. The above principles are actively promoted within the Company and key executives are encouraged to observe these standards. The general culture of the organisation fosters employee observance of ethical standards and the importance of ethical behaviour is discussed when new employees are inducted by their individual managers.
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees. Lipa's Compliance: Comply	The Company acknowledges that during the course of their duties Directors and employees of the Company may become aware of Inside Information relating to the Company. In June 2005 the Board adopted a Constraint on Securities Trading System to implement and enhance the existing Securities Trading Policy and Guidelines. The Policy provides that all Directors and employees of Lipa Pharmaceuticals must satisfy themselves that they are not in possession of any price sensitive information, which is not generally available to the public prior to trading in securities and regulates trading by Directors, Senior Executives / Managers and Employees. Directors must consult the Chairman prior to trading and Senior Executives must advise the Chairman or Chief Financial Officer of any intention to trade and must not trade unless in a specific trading window and until approval has been given. This system provides for training for key staff, which was conducted company wide in August 2006, and a yearly review and audit procedure to ensure that: • the System is compliant with existing legal obligations, • key staff comply with obligations under the System, and • the System is meeting its purpose and appropriate to the circumstances of the Company. The audit and review of the system was conducted in June and July 2006. Recommendations from the review were presented to the Board and on 24th August 2006 the Board adopted a revised System. The key change to the Policy was the extension of the application of specific trading window periods to all employees, rather than just Directors and Senior Executives / Managers.
3.3 Provide the information indicated in Guide to reporting on Principle 3.	The required information has been disclosed within this Statement, on Lipa's website and/or within the Directors' Report.

Principle 4: Safeguard integrity in financial reporting	
Recommendation	Lipa's Compliance
4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. 4.2 The board should establish an audit committee. 4.3 Structure the audit committee so that it consists of: • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least three members. Lipa's Compliance: Comply	In relation to the underlying risk management system of the Company, the Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. Further, the Board has established an Audit and Risk Management Committee and adopted a Policy on the Company's relationship with external auditors in order to achieve the integrity of the financial statements of the company and the independence of the external auditor. The fundamental principle of this policy is to ensure that the independence of the external auditor is maintained at all times. The Audit and Risk Management Committee consists of three independent non-executive directors. In recognition of the need for technical expertise within the Committee, all members are financially literate and Mr John Harkness is a financial expert. Mr Johnston is the independent Chairman of the Committee. Details of the members of the Committee and their attendance at meetings may be found in the Directors' Report. The Committee meets at least four times per year and representatives of management or any employee or officer of the Company may be invited to attend part or all of any meeting of the Committee. In this financial year the external auditors attended several meetings of the Committee together with executive and non-executive directors. Minutes of Committee meetings are recorded and distributed to Committee for review and then included in the board papers for the subsequent full board meeting. The committee also reports to the Board after each meeting.
4.4 The audit committee should have a formal charter	The Audit and Risk Management Committee Charter was adopted by the Board on 17 June 2004 and details the Committee's purpose, powers, responsibilities and frequency of meetings. The Charter is reviewed annually by the Board.
4.5 Provide the information indicated in Guide to reporting on Principle 4.	The required information has been disclosed herein and/or within the Directors' Report.

Principle 5: Make timely and balanced disclosure	
Recommendation	Lipa's Compliance
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. Lipa's Compliance: Comply	To ensure that all investors have equal and timely access to material information concerning the company, the Board adopted a Market Disclosure Policy on 17 June 2004, as part of its Corporate Governance Policies and a Continuous Disclosure System . The Continuous Disclosure System provides for training of key Senior Executives and Management staff, which occurred in August 2006 and monitoring of procedures to ensure compliance with the Policy and the ASX Continuous Disclosure requirements. The yearly audit and review of the System (similar in purpose and conduct to the review of the Securities Trading System) was conducted in June and July 2006 with recommendations referred to the Board. On 23rd August 2006 the Board adopted a revised System to incorporate the review's recommendations. The Chief Executive Officer and Chief Financial Officer/ Company Secretary are primarily responsible for recommending disclosure of information to the market under Listing Rule 3.1. Under the Policy, employees are required to inform a Disclosure Officer of any potentially price-sensitive information regarding the company as soon as they become aware of the information. The CEO communicates with the Board on significant continuous disclosure matters and presents details of disclosure matters raised, before release to the market. The Board also reviews Corporate Governance matters at Board meetings, as they arise. The Company ensures that ASX company announcements are presented in a factual and balanced manner to keep the market fully informed. The disclosure of financial results is usually accompanied by a commentary, which provides further details to assist investors.

Principle 6: Respect the rights of shareholders	
Recommendation	Lipa's Compliance
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings. Lipa's Compliance: Comply	Lipa Pharmaceuticals aims to enhance shareholder participation through effective communication and provides ready access to balanced and understandable information about the Company in the following ways: • Disclosures to the ASX (these are also placed on the Company's website), • Annual Financial Report (if shareholders have requested a copy), • Notices of Annual General Meeting and Explanatory Memoranda, • Half-yearly reports, • Ad-hoc mail-outs to shareholders on pertinent issues, • The Lipa Pharmaceuticals Newsletter, and • Investor Section on the Company's website. Further shareholder communication may occur with periodic dividend payments. Lipa Pharmaceuticals also enhances shareholder participation and communication through electronic means, for example shareholders can elect to receive email notifications of any ASX announcements lodged by selecting the option on the Company's website. The Lipa website is updated regularly and provides further information to shareholders including past annual reports and public announcements as well as details of the history of the Company and current projects. Lipa Pharmaceuticals' Shareholder Communications Strategy outlines the company's policies on communications with shareholders. Lipa Pharmaceuticals regards general meetings as an opportunity for shareholders to engage with the Board and become more familiar with the direction and corporate goals of the company. Shareholders are encouraged to ask questions at this time and the Company's policy is to offer the opportunity for shareholders to submit questions in writing to the auditor and the Company prior to the meeting.
6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. Lipa's Compliance: Comply	The Company requests that the external Auditor attend the Annual General Meeting of the Company in order to answer queries from shareholders regarding the conduct of the audit and the preparation and content of the auditor's report.

Principle 7: Recognise and manage risk	
Recommendation	Lipa's Compliance
7.1 The Board or appropriate board committee should establish policies on risk oversight and management. Lipa's Compliance: Comply	The Board, with assistance from the Audit and Risk Management Committee, is responsible for ensuring that the Company's risk management procedures are effective and risk management is a regular Board meeting agenda item. The Company has identified the following key risk management items, for Board discussion as issues arise: • Quality Assurance • Operations • Financial • Environmental • Occupational health and Safety • Personnel • Security As well as reviewing risk items on an as needs basis, the Company is also committed to maintaining an appropriate and sound risk management strategy. In this regard, from June to September 2006 the Board conducted a full risk management review with support from the Chief Financial Officer and Chief Operating Officer. It is anticipated that a comprehensive review of the Company's overall risk management strategy and systems will be conducted by the Board or Audit and Risk Management Committee annually. The Board may also engage the services of an external risk management consultant if appropriate for future reviews. The Company manages areas of significant business risk through the following internal procedures and controls: • Clearly defined standard operating procedures, which cover each element of good manufacturing practices within the Company. • Training programs for technical and operational staff. • Documented training procedures. • Periodic audits by the Therapeutic Goods Administration. • Internal audit reports to management and the Board. • Periodic customer audits. • Significant investment by the Company in management, supervisory and technical staff. • Use of contemporary laboratory analytical equipment. • Stringent laboratory testing program of raw materials and finished product.

Principle 8: Encourage enhanced performance	
Recommendation	**Lipa's Compliance**
8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives. Lipa's Compliance: Comply	The Board will review its performance on an annual basis and this performance evaluation will include: • An assessment of the Board's performance with the requirements of the Board Charter, • Setting goals and objectives of the Board for the upcoming year, • Consideration of the skill set of the Board, and • Effecting any improvements to the Board Charter as necessary. The process for evaluation is two fold. Firstly, board members will complete a questionnaire dealing with general Board review and evaluation criteria. Core performance criteria for evaluation, includes the attendance and participation at meetings and contribution to Board debate on key issues. The Chairman of the Board will then assess the questionnaires, and evaluate the performance of individual Directors, and the Board collectively. On a periodic basis, the Board may appoint an external governance expert to conduct a review of the Board's performance. Each Standing Committee works closely with the Board as a whole, and the effectiveness of these committees is monitored regularly throughout the year at Board Meetings, rather than conducting an annual evaluation. In compliance with its Charter, the Board undertook a self-evaluation of its performance in October 2006 and will conduct its next evaluation in November 2007, should the Scheme Implementation Agreement not proceed. An overview of the performance evaluation processes for the Board, Board Committees, individual directors and key executives is disclosed on the Company's website. The company has set up processes to ensure that the Board is provided with the information it needs to effectively discharge its responsibilities. In this regard, all Directors are provided with Board papers, where possible at least four days prior to relevant meetings and directors also have access to the Company Secretary. Further, as set out in the Board Charter, the appointment and removal of the Company Secretary is a matter for decision by the Board. The Company's current non-executive directors have previous listed entity directorship experience and are well versed in the formal requirements of Directorships. Apart from formal Board Meetings, non-executive directors also meet management on site either collectively or individually to enable themselves to be engaged and up to date on key developments with the organisation. The Executive Directors are the founding members of Lipa Pharmaceuticals and have expert knowledge of the operations of the company and have attended courses on the duties and responsibilities of directors. An Induction procedure will be available for future new Board Members.

Principle 9: Remunerate fairly and responsibly	
Recommendation	**Lipa's Compliance**
9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance. Lipa's Compliance: Comply	The Remuneration Report contained in the Directors' Report outlines the broad structure and objectives of the remuneration policy, and its link to Company performance. The monetary and non-monetary components of each Director's remuneration package and that of the Company's key management personnel are also disclosed. The Nominations, Remuneration and Corporate Governance Committee informs, supports and advises the Board on those remuneration policies and packages which will best meet the Company's long-term performance objectives. Lipa Pharmaceuticals' Remuneration Report discloses the broad structure and objectives of the Company's remuneration policies and demonstrates a clear relationship between performance and remuneration. The Company acknowledges the importance of balancing a range of fixed, performance-based and equity-based remuneration with the Company's short and longer-term performance objectives. Lipa Pharmaceuticals predominantly complies with best practice guidelines in relation to Non Executive Director remuneration. Our Non-Executive Directors do not receive bonus payments or retirement benefits. As disclosed in the Company's prospectus dated 18 June 2004, the three Non-Executive Directors were each issued with options over shares, as part of their remuneration. Fees not exceeding the maximum aggregate sum set by shareholders at the Company's Annual General Meeting further remunerate the Non-Executive Directors. Executive Directors' remuneration is fixed by the Board and may consist of salary, bonuses and other elements unrelated to a percentage of profits or operating revenue. Senior management is remunerated by a reward-based system reviewed and recommended by the Nominations, Remuneration and Corporate Governance Committee.
9.2 The board should establish a remuneration committee. Lipa's Compliance: Comply	Lipa Pharmaceuticals' Nominations, Remuneration & Corporate Governance Committee comprises of three independent non-executive director members. Meetings are conducted at least twice annually and are chaired by the Chairman of the Board. The Committee's primary function is to support and advise the Board on Nomination and Remuneration matters, and to ensure that remuneration policies and practices are designed to attract and retain executive and non-executive employees who will most effectively contribute towards achieving positive outcomes for the Company. To maintain high standards of accountability to shareholders, the Committee annually reviews both executive and non-executive remuneration packages, including base salaries, fringe benefits, incentive schemes and performance-related bonuses, superannuation, and termination/retirement entitlements.
9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives. Lipa's Compliance: Comply.	Lipa Pharmaceuticals predominantly complies with best practice guidelines in relation to Non-Executive Director remuneration. Our Non-Executive Directors do not receive bonus payments or retirement benefits. As disclosed in the Company's prospectus dated 18 June 2004, the three Non-Executive Directors were each issued with options over shares, as part of their remuneration. Fees not exceeding the maximum aggregate sum set by shareholders at the Company's Annual General Meeting further remunerate the Non-Executive Directors. Executive Directors' remuneration is fixed by the Board and may consist of salary, bonuses and other elements unrelated to a percentage of profits or operating revenue. Senior management is remunerated by a reward-based system reviewed and recommended by the Nominations, Remuneration and Corporate Governance Committee
9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	It is anticipated that, subject to company performance, in the future executive directors and other senior executives may also be remunerated by way of Performance Rights to be issued under the Plan approved by shareholders at the November 2005 Annual General Meeting. The Company would seek shareholder approval of any proposed issues to executive directors.
9.5 Provide the information indicated in Guide to reporting on Principle 9. Lipa's Compliance: Comply	Information relating to best-practice reporting under Principle 9 is provided to shareholders in the Remuneration Report.

Principle 10: Recognise the legitimate interests of stakeholders	
Recommendation	Lipa's Compliance
10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders. Lipa's Compliance: Comply	Lipa Pharmaceuticals is mindful of its responsibilities to employees, customers and the community as well as its responsibility to shareholders. Fairness, honesty and ethical conduct are core values at Lipa Pharmaceuticals and these values are encouraged in employees through management mentoring, employee induction procedures and the Code of Conduct. The Code was adopted on 21 July 2005 and addresses matters relevant to compliance with the company's legal obligations to its stakeholders. It reflects the existing Company ethos and requires high standards of honesty, integrity and fairness in all aspects of employment with Lipa Pharmaceuticals. The Code details the company's policy with regard to the following matters: • clear commitment by the board and management to the Code; • the core values of the company; • responsibilities to identified stakeholders; • obligations relative to fair trading and dealing; • compliance with legislation affecting the company's operations; and • how the company monitors and ensures compliance with its Code. The Code of Conduct also provides that employees may alert management in good faith to potential misconduct without fear of retribution, and requires recording and investigation of such reports.

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BOARD OF DIRECTORS

John Harkness

Non-Executive Chairman FCA, FAICD

John is the Chairman of Lipa Pharmaceuticals. He is also a member of the Audit and Risk Management Committee and is Chairman of the Nominations, Remuneration and Corporate Governance Committee. He is currently a Director on the Boards of Crane Group Limited, Macquarie Countrywide Management Limited and the Goodman Group. John is Chairman of ICA Property Development Funds, Helmsman Capital Fund and the Sydney Foundation for Medical Research. He is also the President of Northern Suburbs Rugby Football Club Limited. Prior to his Board appointments, John was a partner with KPMG for 24 years. He was National Executive Chairman of KPMG Australia for five years, served on KPMG's International Board and was a member of the International Executive Committee and Chairman of the Asia Pacific Board before retiring from KPMG on 30 June 2000. John is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors.

Gorge Jovanov

Non-Executive Director B.Sc (Applied Chemistry)

Gorge, together with his wife, Lipa Pharmaceuticals' Director Stanika Jovanova, is a founder of the Company and substantial shareholder. Gorge was Managing Director of the Company since its inception in 1995 until 23 November 2006. In 1988, Gorge and Stanika immigrated to Australia from Macedonia where he had gained significant experience in the pharmaceutical industry, primarily in research and development, and manufacturing. During 1988, Gorge was Chief Chemist with Trend Laboratories Pty Ltd in the quality control and research and development divisions. From 1989 to 1994, he held the position of General Manager of Matchland Pty Ltd (trading as New Products Development). Gorge has a Bachelor of Science, majoring in Applied Chemistry.

Stanika Jovanova

Non-Executive Director B.Sc (Analytical Chemistry)

Stanika is also a founder of the Company and substantial shareholder. Stanika was an Executive Director of the company since its inception in 1995 until 23 November 2006. Prior to immigrating to Australia in 1988, Stanika gained significant experience in the pharmaceutical industry, primarily in quality control. From 1989 to 1990, Stanika was an Analytical Chemist in the quality control laboratory of Galen Pharmaceuticals Pty Ltd. From 1991 to 1994, Stanika was Quality Assurance Manager of New Products Development. Stanika has a Bachelor of Science, majoring in Analytical Chemistry with Instrumental Analysis.

Philip Johnston

Non-Executive Director Dip Eng (Production)

Philip is Chairman of the Audit and Risk Management Committee and a member of the Board and the Nominations, Remuneration and Corporate Governance Committee. Philip has extensive experience in the pharmaceutical industry. He is currently the Non-Executive Chairman of Novogen Limited, and has previously spent over nine years as an Executive Director of Wellcome Australia Limited. He has also been a Director of two subsidiary companies of GlaxoWellcome. During the last three years, Philip has served as Non-Executive Director of the Novogen subsidiary, Marshall Edwards Inc (NASDAQ). During his career, Philip has had responsibility for pharmaceutical production, distribution, quality assurance and consumer product development. He has also been directly involved in the establishment of a number of strategic alliances and joint venture operations. Philip holds a Diploma in Engineering (Production) and has undertaken a number of executive development programmes, including at the University of NSW and the London Business School.

Rod McGeoch

Non-Executive Director AM, LLB, MAICD

Rod is a member of the Board, the Audit and Risk Management Committee, and the Nominations, Remuneration and Corporate Governance Committee. He has significant board and advisory experience. Over the past three years, he was a Partner, consultant and Chairman Emeritus of Corrs Chambers Westgarth. Rod is also a Trustee of the Sydney Cricket and Sports Ground Trust, and a member of the NSW Advisory Board for Aon Risk Services Limited. Rod was the Chief Executive Officer of Sydney's Olympic 2000 bid and a Director of the Sydney Organising Committee for the Olympic Games. He continues to consult to future bid candidate cities and governments for the Olympic games and other large-scale events. In 1990 Rod was awarded membership of the Order of Australia for services to Law and the Community. Rod holds a Bachelor of Laws degree and is a member of the Australian Institute of Company Directors.

Details of Rod's current and past directorships can be found below.

Further to the Directors' biographies, each Director currently holds, or has held within the past three years, the following directorships of other listed companies.

Mr John Harkness

Current directorships:		
Crane Group Limited	since 2000	Director
Macquarie Countrywide Management Limited	since 2003	Director
Goodman Group	since 2005	Director

Directorships held over the last three years:		
BresaGen Limited	from 2003 to 2004	

Mr Philip Johnston

Current directorships:		
Novogen Limited	since 1997	Chairman
Marshall Edwards Inc	since 2001	Director
Glycotec Inc	since 2005	Director

Mr Rod McGeoch

Current directorships:		
Sky City Entertainment Group Limited	since 2004	Chairman
Vantage Private Equity Growth Limited	since 2005	Chairman
Saatchi & Saatchi (Trans Tasman Advisory Board)	since 2003	Chairman
Telecom Corporation of New Zealand Limited	since 2001	Director
Ramsay Health Care Limited	since 1997	Director
Frontiers Group (UK) Limited	since 2001	Director

Directorships held over the last three years:		
Australian Pacific Airports Corporation Limited	1997 to 2004	Deputy Chairman
Gullivers Travel Group Limited	2004 to 2006	Director

MANAGEMENT PROFILES

Tom McDonald
Chief Financial Officer and Company Secretary
Tom joined Lipa Pharmaceuticals in October 2005 as Chief Financial Officer and Company Secretary. Tom brings extensive commercial and financial experience to Lipa, including previous roles as Chief Financial Officer and Company Secretary in the ASX environment. In addition he has international experience with NYSE listed healthcare and pharmaceutical companies based in the USA. Tom is a Fellow Certified Practising Accountant (FCPA) and an Associate of the Chartered Secretaries Australia (ACIS). He holds a Bachelor Degree in Commerce (UNSW) and is a postgraduate of University of Technology Sydney (UTS).

Dusko Pejnovic
Chief Executive Officer (from 13 August 2007)
Dusko joined Lipa Pharmaceuticals in July 2006 as Director, Supply Chain. In January 2007 he was promoted to Director, Operations & Supply Chain. In addition to his experience within Lipa Pharmaceuticals, Dusko has extensive knowledge of the pharmaceuticals, healthcare and food industries. Prior to joining Lipa Pharmaceuticals, Dusko held the position of General Manager, Operations Contracts and Exports at Sigma Pharmaceuticals Limited and then following was Director – Business Consulting at SME Development Network Pty Ltd. During his time at Sigma Pharmaceuticals, from 1992 to 2004, Dusko was responsible for the operations and development of Sigma Pharmaceuticals' manufacturing plants, research and development, engineering, laboratory and support services throughout Australia. Dusko holds a Bachelor of Science degree (Monash), a Master of Business Administration (AGSM) and is a Fellow of Australian Institute of Management.

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2007

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DIRECTORS' REPORT

Your Directors present their report on the Company for the financial year ended 30 June 2007.

Directors

The following persons were directors of Lipa Pharmaceuticals Limited during the financial year, and up to the date of this report.

Mr. John Harkness

Mr. Gorge Jovanov

Mrs. Stanika Jovanova

Mr. Philip Johnston

Mr. Rod McGeoch

All directors were in office from the start of the year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of Company secretary during the financial year:

Mr. Thomas A McDonald - FCPA, ACIS. Mr. McDonald has been employed by Lipa Pharmaceuticals as Chief Financial Officer since October 11, 2005 and as Company Secretary since 31 October 2005.

Principal Activities

The principal activity of the Company during the year was the contract manufacture of pharmaceutical products.

Operating Results

The profit of the Company after providing for income tax amounted to $5.109 million (2006: $5.868 million).

Dividends Paid or Recommended

The Board has decided not to declare a final dividend (2006: $1.997 million) for the year ending 30 June 2007.
The company paid an interim dividend of 2.18 cents (2006: 2.94 cents) on 9 March 2007.
Dividends paid and declared including dividends re-invested under a Dividend Re-investment Plan during the year are outlined in note 7 to the financial statements.

Review of Operations

Sales revenue for the year was $87.990 million (2006: $77.894 million) recording an increase of 13% over the comparable period last year. Total revenue from ordinary activities for the year was $88.123 million (2006: $78.199 million).

Financial Position

Total assets increased by $4.275 million from 30 June 2006 to $86.150 million as of 30 June 2007 representing a net increase of 5.2%, mainly attributed to the following:

- Capital expenditure relating to the soft gelatin production facility was $2.2 million; other capital expenditure for 2007 was $2.2 million.
- Cash assets showed a net increase of $1.2 million, mainly due to better collections from debtors.
- Inventories showed an increase of $0.971 million compared to the previous year. This was partly due to an increase in raw material stocks to cater for the soft gelatin production requirements.

Total liabilities increased by $1.9 million from 30 June 2006 to $47.1million as of 30 June 2007 mainly due to ;

- Increase in trade and other payables of $1.6 million resulting from the increase in inventory holdings.
- Increase in deferred tax liabilities of $0.25 million.

Equity increased by $2.374 million on the 30 June 2006 balance to $39.016 million at 30 June 2007. Share capital increased by a net of $1.290 million, resulting from the issue of shares to shareholders who participated in the Dividend Re-investment Plan for the final dividends for 2006, and interim dividend payment for 2007.

Net debt to equity ratio was 57.7% in 2007, an improvement of 6.8 percentage points over 64.5% in 2006. This has resulted from 4.8% reduction in net debt as cash assets showed $1.2 million improvement during the year, while equity showed a 6.5% growth in 2007.

Significant Changes in State of Affairs

(a) On 28 August 2006, the Company announced its full year results of $5.9 million ($9.9 million for 2005) profit to the market.

(b) On 20 September 2006, the Company announced a final dividend of 2.94 cents per share and issued 1,627,526 ordinary shares at $0.71 each to shareholders under the company's Dividend Re-investment Plan (DRP).

(c) On 16 October 2006, the Company announced the appointment of a new Chief Executive Officer to replace the joint co-founder, Mr. Gorge Jovanov, who was stepping down as Managing Director at the Annual General Meeting on 23rd November 2006. The announcement also advised that fellow joint co-founder, Mrs. Stanika Jovanova would also step down as an executive Director.

(d) On 14 November 2006, the Company advised that it will increase its soft gelatin production capacity in 2007 by the acquisition of a further two soft gelatin manufacturing lines.

(e) On 28 February 2007, the Company announced its half year results of $2.6 million ($2.6 million Dec 2005) profit to the market.

(f) On 2 March 2007, the Company announced an interim dividend of 2.18 cents per share and issued 184,134 ordinary shares at $0.73 each to shareholders under the company's Dividend Re-investment Plan (DRP).

(g) On 15 May 2007, the Company announced the renewal of a supply agreement with one of the major customers, Blackmores Limited, for 2 years commencing 14 May 2007.

(h) On 17 May 2007, the Company advised the market that the Directors would be conducting a strategic review of the company, designed to unlock the inherent value of the business and release enhanced shareholder value.

After Balance Date Events

During the second half of this financial year the directors conducted a strategic review of the company, designed to unlock the inherent value of the business. The strategic review was completed after the close of the financial year and resulted in a proposed acquisition by CK Life Sciences Int'l. Inc. by way of a scheme of arrangement. This information was released to the market on 3 August 2007.

On 13 August 2007, Mr. James McBrayer resigned as Chief Executive Officer of the company and was replaced by Mr. Dusko Pejnovic.

Future Developments

Likely developments in the operations of the Company and the expected results of those operations in future financial years will be focused on consolidating the Company performance on softgel and traditional dosage forms.

The Board expects that the above developments will enable the Company to better service the requirements of our customer base and create further manufacturing opportunities in the pharmaceutical industry.

Key Business Strategies and Future Prospects

The Company's business strategies and prospect of growth in the future financial years have not been included in this report, as the inclusion of this information is likely to result in an unreasonable prejudice to the Company.

Environmental Issues

The Company’s operations are subject to significant environmental regulation under Commonwealth and State law. All environment performance obligations are monitored by the Company and subject to, from time to time, government agency audits and site inspections. No environmental breaches have been notified by any government agency during the year ended 30 June 2007.

Information on Directors

A description of the Director's qualifications, other directorships and experience is included in the Director's profiles on pages 15 to 16 of this Annual Report.

Interest in Shares and Options

John Harkness	- 22,927 ordinary shares and 75,000 options in Lipa Pharmaceuticals.
Gorge Jovanov	- 24,952,922 ordinary shares in Lipa Pharmaceuticals. No options were issued.
Stanika Jovanova	- 24,952,922 ordinary shares in Lipa Pharmaceuticals. No options were issued.
Philip Johnston	- 22,927 ordinary shares and 75,000 options in Lipa Pharmaceuticals.
Rod McGeoch	- 22,927 ordinary shares and 75,000 options in Lipa Pharmaceuticals.

Directors' Meetings

The following meetings were held during the year:

	Directors' Meetings		Committee Meetings			
			Audit and Risk Management Committee		Nominations, Remunerations and Corporate Governance Committee	
	Number held	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
John Harkness	18	18	6	6	5	5
Gorge Jovanov	18	18	-	-	-	-
Stanika Jovanova	18	17	-	-	-	-
Philip Johnston	18	15	6	6	5	5
Rod McGeoch	18	13	6	5	5	5

Indemnifying Officers or Auditors

During the financial year, the Company paid insurance premiums in respect of indemnity insurance, for all Directors and Officers of the Company.

Directors and officers of the Company are indemnified under the policy, to the extent permitted by law, for their actions arising out of conduct undertaken in good faith in their capacity as a director or officer of Lipa Pharmaceuticals. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance policies, since disclosure is prohibited under the terms of the insurance contracts.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, in respect of the auditor of the Company.

REMUNERATION REPORT

This report forms part of the Directors' statutory report for the year ended 30 June 2007.

This report complies with the requirements of Regulation 2M.3.03 with regard to the remuneration disclosures required by section 300A(i) of the Corporations Act 2001, and Accounting Standard AASB 124 Related Party Disclosures. This has been included in the Directors' Report in accordance with Regulation 2M.6.04 of the Corporations Act 2001 and Schedule 5B of the Corporations Amendment Regulations 2005.

Nominations, Remuneration and Corporate Governance Committee (Remuneration Committee)

The charter of the Remuneration Committee, amongst other matters, provides that it is to review and provide recommendations to the Board for approval on policies for remuneration and remuneration programs. Support for the committee is available from external remuneration specialists.

Remuneration Policy

The key principles of Lipa Pharmaceuticals' Key Management Personnel remuneration policy are:

- Remuneration is set at levels that will attract and retain good employees, and motivate and reward them to continually improve business performance.
- Remuneration is structured to reward employees for increasing shareholder value.
- Rewards are linked to the achievement of business strategies and goals.

Performance Based Remuneration

The following remuneration structure was approved by the shareholders in the Annual General Meeting held on 16 November 2005.

Lipa Pharmaceuticals adopts a Total Rewards Concept for remunerating senior staff, which embraces the following elements:

FIXED REMUNERATION
comprises of a base salary, superannuation and fringe benefits, and is the pre-tax cost to Lipa Pharmaceuticals of these components.

VARIABLE REMUNERATION
is the performance based "at risk" component of the Total Rewards package, and comprises of short-term incentives, which are intended to be paid in cash, and long-term incentives, which are intended to take the form of Performance Share Rights to acquire ordinary shares in the Company, under the Long Term Incentive - Executive Performance Share Rights Plan. Participation in these plans will be applied based on the extent to which individuals can directly affect business performance.

The aim of both short-term and long-term incentive plans is to drive performance to successfully implement annual business plans and increase shareholder value.

THE SHORT TERM INCENTIVE PLAN:
Short-term incentives are used to differentiate rewards based on performance on a year-by-year basis. It is envisaged that with good Company financial performance, an employee who exceeds expectations will normally achieve a high short-term incentive, which, when added to fixed remuneration, would bring the combination of these two components to around the upper quartile of the market rate.

It is envisaged that there will be several levels of short-term incentive plans at Lipa Pharmaceuticals, depending on the ability of the position to influence the performance outcomes desired by the Company. Annual incentives for strategic positions can range between 10% to 30% of the participants Total Reward Package, for superior performance by both the Company and the individual.

The key principles of the short-term incentive plan is set as follows:

- Performance indicators are based on the achievement of the Company profit targets and the individual achievement of specified key performance indicators (KPI's).

- At a key management personnel level, the attainment of financial targets carries a heavier weighting than non-financial measures, and are set so that maximum rewards can only be gained if the results deliver the maximum target return to shareholders.

- The individual KPI's must be genuine drivers of business performance for both short-term and long-term sustainability.

- Short-term incentives are only payable where pre-determined profit threshold levels are achieved which trigger the minimum incentive level payable to executives. The plans are structured to ensure that in excess of 50% of the incremental net profit after tax remains with shareholders.

The remuneration system in place for the year ended 30 June 2007 essentially followed the guidelines described above for the fixed and variable remuneration.

LONG-TERM INCENTIVE PLAN
provides long-term incentives to participants, to reward sustained superior performance and to align their interests more closely with those of Lipa Pharmaceuticals' shareholders.

It is envisaged that long-term incentives will be funded by securities in the Company, which will be purchased in trust under the Employee Share Plan (ESP). It is envisaged that performance share rights will vest, if earnings per share growth (EPS) exceeds a pre-determined level. It is anticipated that EPS will be measured progressively during the term of the incentive scheme and the performance share rights will vest in the third year if Company performance hurdles are met.

Company Performance, Shareholder Wealth and Key Management Personnel Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives, as outlined above. The Company believes this policy will have a positive effect in increasing shareholder wealth.

The following table shows the Company's performance over the past three years. The table shows a decline in Company performance with decreases in revenue and profit, as reflected in the share prices of the Company. Please refer Review of Operations for the detailed discussion of current year performance.

	2004(*)	2005	2006	2007
Sales Revenue	$77.732m	$82.320m	$77.894m	$87.990m
Net Profit	$9.542m	$9.962m	$5.868m	$5.109m
Share price at year end		$1.45	$0.67	$0.81
Dividends paid		9.30¢	5.07¢	2.18¢

(*) - Full information is not provided for 2004 and prior years, as the Company operated under a private Company structure, and was not a disclosing entity.

Remuneration Review

The Remuneration Committee recommends to the Board, a percentage increase to be applied to the fixed remuneration component each year. The Remuneration Committee also reviews the remuneration of the Chief Executive Officer and recommends to the Board any short-term or long-term incentive payments and fixed remuneration adjustments.

The Remuneration Committee also reviews the recommendations of the Chief Executive Officer for any changes to the remuneration and incentive payments for those who report directly to him.

Fixed remuneration for key management personnel and staff is reviewed annually, using formal performance appraisal processes, and market data from surveys of people with similar competencies and responsibilities. Future reviews will cover both fixed and variable remuneration components.

Changes to fixed remuneration and incentive payments require a recommendation from the manager to whom the employee reports and then approval from the senior line manager. All incentive payments require approval from the Remuneration Committee before payment is made.

Retirement Benefits For Employees

All Lipa Pharmaceuticals employees receive a superannuation guarantee contribution as required by government legislation. At present, the majority of Lipa Pharmaceuticals employees contribute to a Master Accumulation Fund administered by the ANZ Bank. A small number of other employees contribute to superannuation funds of their choice.

Industrial Awards And Agreements

The majority of Lipa staff are employed under a Lipa Pharmaceuticals Australian Workplace Agreement (AWA). These agreements are renewable every five years. Salary rates are reviewed annually and the AWA was approved by the office of workplace advocate.

A small number of administrative staff are employed under the Clerical and Administrative Employees' State Award.

Compensation of Executive Directors and Key Management Personnel

The Executive Directors during the year were Gorge Jovanov (Managing Director) and Stanika Jovanova and they held these executive positions until the Annual General Meeting on 23 November 2006. They were the only executive directors on the Board. Both are founding members of Lipa Pharmaceuticals and have been directors since the company's inception in June 1995. Both Gorge Jovanov and Stanika Jovanova's remuneration comprised fixed remuneration only.

The Chief Executive Officer was appointed to the position on 16 October 2006. His remuneration comprised a fixed base component and a combination of short term and long term incentives as detailed in the ASX announcement dated 16 October 2006.

The remuneration details for the directors and key management personnel during the year appear on pages 23 and 24.

No incentive payment has been made during the current financial year to management due to less than expected financial performance of the Company. There were minimal payments to sales executives for meeting customer sales targets.

Termination Arrangements

Apart from the service agreements referred to in the previous section, letters of engagement are in place for all other senior staff with notice periods of between one to six months. Should employment be terminated, Lipa Pharmaceuticals may choose to make a payment in lieu of the notice period.

Other senior staff have no fixed term contracts of employment.

In the event of retrenchment, key management personnel and management entitlements are in accordance with a Certified Agreement with Lipa Pharmaceuticals, which provides for a period of notice, or pay in lieu, of one month or if over 45 years of age, five weeks, where service criteria has been satisfied. In addition, 3 weeks for each year of continuous service will also be paid. Severance payments are capped at 33 weeks.

Remuneration Of Non Executive Directors

Fees for non-executive directors are based on the scope of director responsibilities.

Directors' fees were set after considering market remuneration data, for directors of similar calibre, skill and experience to that of present Board members.

The Remuneration Committee will consider the level of remuneration required to attract and retain directors with the necessary skills and experience for the Board. Consideration will be given to remuneration survey data for directors' fees paid by companies of comparable size and complexity as well as other data available.

The remuneration details for non-executive directors during the year are set out on pages 23 and 24.

The maximum aggregate sum for the remuneration for non-executive directors was set at $350,000 per year, and approved by shareholders in June 2004. This maximum amount only applies to directors fees.

Details of Remuneration for the Year Ended 30 June 2007

Names and positions held of the Company Directors and Key Management Personnel in office at any time during the financial year are:

Directors

Names and positions of the Company Directors are given at the beginning of this report.

Other Key Management Personnel

Thomas A McDonald	Chief Financial Officer and Company Secretary
James McBrayer	Chief Operating Officer (from start of the financial year to 15 October 2006), CEO (from 16 October 2006 to 13 August 2007)
Dusko Pejnovic	Director, Operations and Supply Chain (appointed on 1 July 2006 to 12 August 2007), CEO (from 13 August 2007)
David Cornish	Operations Director (resigned on 31st January 2007)
Peter Kissane	Technical Director
Guido Stracke	Sales & Marketing Director (appointed on 23rd October 2006)
Norberto Obmasca Jnr	Project Manager

The remuneration for each Key Management Personnel of the Company during 2006/07 was as follows:

2007	Short Term Benefits			Post Employment Benefits	Equity Based Benefits		
	Salary, Fees & Commissions	Cash Bonus	Non-Cash Benefits	Superannuation Contribution	Options(*)/ Performance Share Rights(**)	Total	Performance Related %
Directors							
John Harkness	110,000	-	-	9,900	4,445	124,345	-
Gorge Jovanov (a)	339,161	-	-	17,589	-	356,750	-
Stanika Jovanova (b)	148,799	-	-	16,474	-	165,273	-
Gorge Jovanov (a)	29,167	-	-	2,625	-	31,792	-
Stanika Jovanova (b)	29,167	-	-	2,625	-	31,792	-
Philip Johnston	59,997	-	-	5,400	4,445	69,842	-
Rod McGeoch	59,997	-	-	5,400	4,445	69,842	-
	776,288	-	-	60,013	13,335	849,636	
Other Key Management Personnel							
James McBrayer	266,548	20,000	-	23,931	14,646	325,125	-
Thomas McDonald	181,386	-	-	15,849	2,783	200,018	-
Dusko Pejnovic	191,608	-	-	16,117	1,465	209,190	-
Peter Kissane	177,297	-	-	15,093	1,396	193,786	-
Norberto Obmasca Jnr	127,190	9,626	-	10,955	2,042	149,813	-
Guido Stracke	122,792	-	-	10,308	5,338	138,438	-
David Cornish	196,004	-	-	11,835	-	207,839	-
	1,262,825	29,626	-	104,088	27,670	1,424,209	

(*) - Options issued were valued using binomial model.

(**) - Performance Share Rights (PSR) expenses for the year are valued using a probability of employee retention basis. Refer note 1(p) and note (20) under the financial statements for the vesting conditions and the accounting treatment of the PSR.

(a) Resigned as Managing Director on 23 November 2006, and continued as Non-executive Director from 23 November 2006.

(b) Resigned as Executive Director on 23 November 2006, and continued as Non-executive Director from 23 November 2006.

The remuneration for each Key Management Personnel of the Company during 2005/06 was as follows:

2006	Short Term Benefits			Post Employment Benefits	Equity Based Benefits		
	Salary, Fees & Commissions	Cash Bonus	Non-Cash Benefits	Super-annuation Contribution	Options(*)	Total	Performance Related %
Directors							
John Harkness	110,000	-	-	10,725	4,445	125,170	-
Gorge Jovanov	399,430	-	-	36,750	-	436,180	-
Stanika Jovanova	200,921	-	-	36,750	-	237,671	-
Philip Johnston	60,000	-	-	5,850	4,445	70,295	-
Rod McGeoch	60,000	-	-	5,850	4,445	70,295	-
	830,351	-	-	95,925	13,335	939,611	
Other Key Management Personnel							
James McBrayer	237,085	-	-	22,972	-	260,057	-
Thomas McDonald (a)	125,764	-	-	11,225	-	136,989	-
Les Back (b)	86,171	-	2,340	11,888	-	100,399	-
Peter Kissane	171,708	-	-	13,149	-	184,857	-
David Cornish	167,276	-	-	14,639	-	181,915	-
Craig Blanchette	135,495	-	-	10,722	-	146,217	-
	923,499	-	2,340	84,595	-	1,010,434	

(*) - Options issued were valued using binomial model.

(a) - Appointed as Chief Financial Officer on 11 October 2005 and as Company Secretary on 31 October 2005.

(b) - Ceased to be an officer of the Company on 31 October 2005.

Shareholdings

Number of shares held by Directors and Key Management Personnel:

	Note	Balance 1.7.06	Received as Remuneration	Options Exercised	Net Change Other	Balance 30.6.07
Directors						
John Harkness	5(a)	21,146	-	-	1,781	22,927
Gorge Jovanov	5(a),5(b)	24,226,137	-	-	726,785	24,952,922
Stanika Jovanova	5(a),5(b)	24,226,137	-	-	726,785	24,952,922
Philip Johnston	5(a)	21,146	-	-	1,781	22,927
Rod McGeoch	5(a)	21,146	-	-	1,781	22,927
Other Key Management Personnel						
Tom McDonald		20,221	-	-	1,228	21,449
David Cornish		3,155	-	-	191	3,346
Peter Kissane		20,000	-	-	-	20,000
Total		48,559,088	-	-	1,460,332	50,019,420

Net change other includes:

(a) Purchase of shares at the time of the IPO and issue of new shares under the Dividend Re-investment Plan.

(b) Sale of 50% of shareholding by the Founding shareholders, Gorge Jovanov and Stanika Jovanova, to facilitate the IPO.

Options

Options were granted over unissued shares of the Company during 2004/05 financial year to the Non-Executive Directors. No other options were issued to any other Officer of the Company during the financial year or at the date if this report. Details of options issued to Non Executive Directors as part of their remuneration is as follows:

				Terms & Conditions for each Grant			
	Vested No.	Granted Number	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Directors							
John Harkness	2004 - 02	75,000	5-Aug-2004	$0.17	$1.80	5-Aug-2007	5-Aug-2009
Philip Johnston	2004 - 03	75,000	5-Aug-2004	$0.17	$1.80	5-Aug-2007	5-Aug-2009
Rod McGeoch	2004 - 04	75,000	5-Aug-2004	$0.17	$1.80	5-Aug-2007	5-Aug-2009
		225,000					

All grants of options vest on the grant date in respect of all Non-Executive Directors.

Options expire five years after vesting. Exercise price equals the pre-application price plus 20%. The options in issue are to be settled in equity.

The service and performance criteria set to determine remuneration are included under the Remuneration Report.

At the date of this report, the unissued ordinary shares of Lipa Pharmaceuticals under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
5-Aug-2004	5-Aug-2009	$1.80	225,000

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Remuneration Options

Options Granted As Remuneration

No share options were granted during the year.

Options and Employee Share Rights

No options were granted as remuneration to, or exercised by, any Key Management Personnel during the year.

357,573 performing share rights were granted to senior executives during the year. These rights vest over a three year period and require achievement of a three year performance hurdle set by the Board and require continuous employment with the company over the vesting period. Details of performance share rights issued to Kay Managemetn Personnel as part of their remuneration is as follows:

Name	Position	Number of PSR Alloted
James McBrayer	Chief Executive Officer	133,333
Thomas McDonald	Chief Financial Officer	25,333
Dusko Pejnovic	Director Operations & Supply Chain	13,332
Peter Kissane	Technical Director	12,704
Norberto Obmasca Jnr	Project Manager	18,588
Guido Stracke	Sales & Marketing Director	48,593
Other Executives	Various Positions	105,690
Total		357,573

Proceedings on Behalf of the Company

No proceedings have been brought on behalf of Lipa Pharmaceuticals, nor has any application been made in respect of the Company under section 237 of the Corporations Act 2001 (which allows members and other persons to bring proceedings on behalf of companies).

Non-audit Services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services provided did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Detail of the fees for non-audit services paid/ payable to the external auditors during the year ended 30 June 2007 are given under note 6, which forms part of this report.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2007 has been received and can be found on page 27, which forms part of this report.

Corporate Governance

The Directors of the Company support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability. The Company's corporate governance framework is kept under review. A report is provided to the Board at least annually, recommending any improvements necessary to respond to changes to the Company's business or applicable legislation and standards. The key principles of corporate governance at Lipa are given on Pages 7 to 14, under Corporate Governance.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and the Directors report have been rounded to the nearest thousand dollars.

John Harkness

Chairman

Dated this 29th day of August 2007.

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LIPA PHARMACEUTICALS LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Lipa Pharmaceuticals Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney 29 August 2007

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LIPA PHARMACEUTICALS LTD
INCOME STATEMENT
FOR THE YEAR ENDED
30 JUNE 2007

	Note	2007	2006
		$000	$000
Sales revenue	2	87,990	77,894
Cost of sales		(72,887)	(61,890)
Gross profit		15,103	16,004
Other income	2	133	305
Administration expenses		(4,944)	(4,854)
Marketing expenses		(927)	(884)
Finance costs		(2,099)	(1,859)
Other expenses		(130)	(219)
Profit before income tax	3	7,136	8,493
Income tax expense	4	(2,027)	(2,625)
Net profit after income tax expense attributable to members of the Company	21	5,109	5,868
Overall Continuing Operations			
Basic earnings per share (cents per share)	8	5.38	6.36
Diluted earnings per share (cents per share)	8	5.38	6.36

The accompanying notes should be read in conjunction with these financial statements.

LIPA PHARMACEUTICALS LTD

BALANCE SHEET

AS AT 30 JUNE 2007

	Note	2007	2006
		$000	$000
CURRENT ASSETS			
Cash and cash equivalents	9	5,583	4,382
Trade & other receivables	10	20,929	19,661
Inventories	11	11,162	10,191
Other current assets	12	448	564
Current tax assets	17	191	746
TOTAL CURRENT ASSETS		38,313	35,544
NON-CURRENT ASSETS			
Property, plant and equipment	13	45,879	44,164
Trade & other receivables	10	1,014	1,014
Deferred tax assets	14	944	1,153
TOTAL NON-CURRENT ASSETS		47,837	46,331
TOTAL ASSETS		86,150	81,875
CURRENT LIABILITIES			
Trade and other payables	15	15,165	13,541
Short term borrowings	16	4,365	2,994
Short term provisions	18	936	767
TOTAL CURRENT LIABILITIES		20,466	17,302
NON-CURRENT LIABILITIES			
Long term borrowings	16	23,732	25,032
Deferred tax liabilities	14	2,257	2,009
Long term provisions	18	679	890
TOTAL NON-CURRENT LIABILITIES		26,668	27,931
TOTAL LIABILITIES		47,134	45,233
NET ASSETS		39,016	36,642
EQUITY			
Issued capital	19	17,944	16,654
Reserves	20	2,442	2,390
Retained earnings	21	18,630	17,598
TOTAL EQUITY		39,016	36,642

The accompanying notes should be read in conjunction with these financial statements.

LIPA PHARMACEUTICALS LTD

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Ordinary Share Capital	Retained Profits	Share Options Reserve	Employee Performance Share Rights	General Reserve	Total
	$000	$000	$000	$000	$000	$000
Balance at 1.7.2005	12,587	18,685	12	-	2,365	33,649
Items recognised directly in equity	-	-	-	-	-	-
Net income recognised directly in equity	-	-	-	-	-	-
Profit for the year	-	5,868	-	-	-	5,868
Total recognised income and expense for the period	-	5,868	-	-	-	5,868
Value of share options granted	-	-	13	-	-	13
Shares issued under Dividend Reinvestment Plan (DRP)	4,067	-	-	-	-	4,067
Dividends paid or provided for	-	(6,955)	-	-	-	(6,955)
Balance at 30.06.2006	16,654	17,598	25	-	2,365	36,642
Items recognised directly in equity	-	-	-	-	-	-
Net income recognised directly in equity	-	-	-	-	-	-
Profit for the year	-	5,109	-	-	-	5,109
Total recognised income and expense for the period	-	5,109	-	-	-	5,109
Value of share options granted	-	-	13		-	13
Employee performance share rights granted	-	-	-	39	-	39
Shares issued under Dividend Reinvestment Plan (DRP)	1,290	-	-	-	-	1,290
Dividends paid or provided for	-	(4,077)	-	-	-	(4,077)
Balance at 30.06.2007	17,944	18,630	38	39	2,365	39,016

The accompanying notes should be read in conjunction with these financial statements.

LIPA PHARMACEUTICALS LTD

CASH FLOW STATEMENT
FOR THE YEAR ENDED
30-Jun-07

	Note	2007	2006
		$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		94,483	84,580
Payments to suppliers and employees		(83,198)	(73,442)
Interest received		123	295
Finance costs		(2,098)	(1,857)
Income tax paid		(1,015)	(3,904)
Net cash provided by operating activities	23(b)	8,295	5,672
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(4,379)	(6,725)
Proceeds from sales of plant and equipment		-	7
Net cash used in investing activities		(4,379)	(6,718)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease principal		(2,152)	(1,699)
Proceeds from borrowings		4,911	8,189
Repayment of borrowings		(2,687)	(8,100)
Dividends paid		(2,787)	(2,887)
Net cash provided by financing activities		(2,715)	(4,497)
Net increase / (decrease) in cash held		1,201	(5,543)
Cash at beginning of year		4,382	9,925
Cash at end of year	23(a)	5,583	4,382

The accompanying notes should be read in conjunction with these financial statements.

Note 1: Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Lipa Pharmaceuticals Limited ("Lipa Pharmaceuticals") as an individual company. Lipa Pharmaceuticals is a listed public company, incorporated and domiciled in Australia.

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

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

Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Revenue

Sales revenue is recognised when significant risks and rewards have passed from Lipa Pharmaceuticals. This occurs when goods are delivered to customers or when ready for delivery are held on customer's deferred delivery instructions and customer accepts title and the invoice. In either condition revenue and cost incurred, or to be incurred in respect of the transaction, must be measured reliably.

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

Dividend revenue is recognised when the right to receive a dividend has been established.

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

All revenue is stated net of the amount of goods and services tax.

(b) Income Tax

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

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

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

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

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

Note 1: Statement of significant accounting policies (cont.)

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of manufactured products include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

(d) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(e) Property, Plant and Equipment

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

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

The cost of fixed assets constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives of each class of depreciable assets are:

Class of Fixed Asset	Useful Lives
Buildings	40 years
Plant and equipment	4 - 20 years
Leased plant and equipment	4 - 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Note 1: Statement of significant accounting policies (cont.)

(f) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

The Company enters into sale and leaseback arrangements. In the event of a loss under a sale and leaseback arrangement, the Company defers and amortises the loss over the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the life of the lease term. Lease incentives under operating leases are recognised as liabilities and amortised over the life of the lease term.

(g) Research and Development Expenditure

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

(h) Foreign Currency Transactions and Balances

Foreign currency transactions

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise except that:

- exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
- exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

(i) Goods & Services Tax (GST)

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

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

(j) Employee Benefits

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

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

(k) Share Based Payments

The Company reflects in its income statement and balance sheet the effects of share-based payment transactions, including expenses associated with share options granted to Directors and employees. The value of options issued have been expensed to the income statement over the period from their grant date until vesting. The Company uses the binomial method to value share options granted.

(l) Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Note 1: Statement of significant accounting policies (cont.)

(m) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(n) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the Company’s intention to hold these investments to maturity. Any held-to-maturity investments held by the Company are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm’s length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(o) Impairment of Assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Note 1: Statement of significant accounting policies (cont.)

(p) Employee Performance Share Rights

The Company provides benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for Performance Share Rights to acquire ordinary shares in the Company up on satisfying certain vesting conditions. These transactions are treated as equity-settled share based payment.

The cost of such equity settled transactions with employees is measured at the grant date with reference to the fair value of services to be received by the Company from the employees over the vesting period.

Performance Share Rights issued under the Long Term Incentive Plan are recognised as a remuneration expense. The total amount to be expensed over the vesting period as specified under the Performance Share Rights Plan. At each reporting date, the Company revises its estimates of the number of Performance Share Rights and recognises the impact of the revision of the original estimates immediately to the extent it relates to past services and the remainder over the remaining vesting period in the income statement and a corresponding adjustment to equity.

(q) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(r) Rounding of Amounts

The Company has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest $1,000.

(s) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key judgments — Doubtful debts provision

Included as non current receivable at 30 June 2007 is an amount receivable from sales made to a customer during the previous financial years amounting to $1.306 million. Legal action is currently underway to recover the debt. Based on legal advice, the Directors believe that the full amount of the debt is recoverable. $550,000 of this debt is covered by trade indemnity insurance. A provision has been made in 2006 for $292,000 to cover the exposure in excess of the insurance cover.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2007

	Note	2007	2006
		$000	$000
Note 2: Revenue			
Operating activities			
- Sale of goods		87,886	77,894
- Rendering of services		104	-
		87,990	77,894
Non-operating activities			
- Interest		123	295
- Other revenue from ordinary activities		10	10
		133	305
Total revenue		88,123	78,199
Note 3: Profit from Ordinary Activities			
Profit from ordinary activities before income tax expense has been determined after:			
(a) Expenses:			
Depreciation of property plant and equipment		1,690	922
Amortisation of plant and equipment		974	989
		2,664	1,911
Write down of inventories		270	367
Provision for doubtful debts		58	300
Loss on disposal of plant and equipment		-	9
Amortisation of excess of carrying value over proceeds received from sales and leaseback transaction		35	35
Finance costs			
- Finance charges on finance leases		629	495
- Interest paid on commercial bills		1,199	1,012
- Bank fees and other charges		271	352
		2,099	1,859
Rental expenses on premises		-	-
Rental expense on operating leases			
- Minimum lease payments		174	88
(b) Revenue and Net Gains			
Bad debts recovered		14	-

	Note	2007	2006
		$000	$000

Note 4: Income Tax Expense

(a) The Components of Tax Expense Comprise:

	2007	2006
Current tax	1,586	1,933
Deferred tax	457	655
Under/(over) provision in respect of prior years	(15)	37
	2,027	2,625

(b) The Prima Facie Tax Payable on Profit before Income Tax is Reconciled to the Income Tax expense as follows:

	2007	2006
Prima facie tax payable on profit before income tax at 30% (2006: 30%)	2,141	2,548
Add:		
Tax effect of:		
- Other non-allowable items	91	140
- R&D Tax concession	(190)	(100)
- Under/(over) provision for income tax in prior years	(15)	37
Income tax expense attributable to the entity	2,027	2,625
Applicable weighted average effective tax rates	28%	31%

Note 5: Key Management Personnel Compensation

This report complies with the requirements of Coporations Amendments Regulation 2006 which allows the company to transfer key management personnel remuneration disclosures required by AASB 124 Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2. These notes are included in the Remuneration Report given under the Directors' Report.
In accordance with the above, information concerning the compensation for key management personnel may be found in the Remuneration Report (Refer Page 20 to Page 26)

Shareholdings

Number of shares held by Key Management Personnel:

	Note	Balance 1 July 2006	Received as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2007
Directors						
John Harkness	5(a)	21,146	-	-	1,781	22,927
Gorge Jovanov	5(a),5(b)	24,226,137	-	-	726,785	24,952,922
Stanika Jovanova	5(a),5(b)	24,226,137	-	-	726,785	24,952,922
Philip Johnston	5(a)	21,146	-	-	1,781	22,927
Rod McGeoch	5(a)	21,146	-	-	1,781	22,927
Key Management Personnel						
Tom McDonald		20,221	-	-	1,228	21,449
David Cornish		3,155	-	-	191	3,346
Peter Kissane		20,000	-	-	-	20,000
Total		48,559,088	-	-	1,460,332	50,019,420

Net change other includes:

(a) Purchase of shares at the time of the IPO and issue of new shares under the Dividend Reinvestment Plan.

(b) Sale of 50% of shareholding by the founding shareholders, Gorge Jovanov and Stanika Jovanova, to facilitate the IPO.

	2007	2006
	$000	$000
Note 6: Auditor's Remuneration		
Statutory Audit services		
— Reviewing the half-yearly financial report	36	26
— Auditing the annual financial report	74	50
	110	76
Other services		
— Review of other financial reports	10	10
— Review and tax advisory services	12	11
— Other assurance services	4	11
	26	32

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2007

	Note	2007	2006
Note 7: Dividends		$000	$000
Fully franked interim dividend of 2.18 cents (2006: 2.94 cents) per share franked at the tax rate of 30% (2006: 30%)	7(a)	2,080	2,722
No final dividend declared (2006: 2.13 cents per share franked at the tax rate of 30%)		-	1,997
		2,080	4,719
Balance of the franking account at year end adjusted for franking credits arising from the payment of provision for income tax and franking debits arising from payment of proposed dividends		6,624	8,424

(a) Lipa Pharmaceuticals has established a Dividend Reinvestment Plan (DRP) for eligible shareholders wishing to make a reinvestment in the Company of some or all of their dividend payment. The Directors have resolved not to offer securities issued under the DRP at a discount, but reserve the right to review this decision at future payment dates.

	2007	2006
Note 8: Earnings Per Share	$000	$000
(a) Reconciliation of Earnings to Net Profit		
Net profit from ordinary activities after income tax expense attributable to members of the Company	5,109	5,868
Adjustments to net profit for the purpose of calculating EPS	-	-
Earnings used in the calculation of EPS	5,109	5,868
(b) Weighted Average Number of Ordinary Shares Outstanding during the Year Used in Calculation of Basic EPS	94,957	92,195
Weighted average number of options outstanding	-	-
Weighted average number of performance share rights outstanding	5	-
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	94,962	92,195

	Note	2007	2006
Note 9: Cash & Cash Equivalents		$000	$000
Cash at bank		4,933	3,732
Cash at call	9(a)	650	650
		5,583	4,382

(a) The effective interest rate on short-term bank deposits were 6.56% (2006 5.50%); these deposits have an average maturity of 180 days.

Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash & Cash Equivalents	5,583	4,382

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2007

	Note	2007	2006
Note 10: Receivables		$000	$000
Current			
Trade debtors		20,523	19,393
Provision for doubtful debts		(59)	(9)
		20,464	19,384
Other debtors		465	277
		20,929	19,661
Non-Current			
Trade debtors	10(a)	1,306	1,306
Provision for doubtful debts		(292)	(292)
		1,014	1,014

(a) The non-current receivable relates to a debt which is currently under the subject of a lawsuit.

Note 11: Inventories

Current		
At cost:		
Raw materials	9,613	7,628
Work in progress	1,164	1,756
Finished goods	385	807
	11,162	10,191

Note 12: Other Assets

Current		
Prepayments	297	404
Other	151	160
	448	564

	Note	2007	2006
Note 13: Property, Plant, and Equipment		$000	$000
Land and Buildings			
Land			
- at cost		7,096	7,096
		7,096	7,096
Buildings			
- at cost		18,406	8,373
- at cost		-	9,897
Less accumulated depreciation		(1,014)	(546)
		17,392	17,724
Total for land and buildings		24,488	24,820
Plant and equipment			
- at cost		15,290	8,088
Less accumulated depreciation		(4,410)	(1,601)
		10,880	6,487
Leased plant and equipment			
Capitalised lease assets - at cost		12,286	15,248
Less accumulated amortisation		(1,775)	(2,391)
		10,511	12,857
Total plant and equipment		21,391	19,344
Total property, plant and equipment		45,879	44,164

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the period:

	Property $000	Plant and Equipment $000	Leased Plant and Equipment $000	Total $000
Balance at the beginning of the period	24,820	6,487	12,857	44,164
Additions	135	4,244	-	4,379
Disposals	-	1,372	(1,372)	-
Depreciation/amortisation expense	(467)	(1,223)	(974)	(2,664)
Carrying amount at the end of the period	24,488	10,880	10,511	45,879

	Note	2007	2006
Note 14: Deferred Tax		$000	$000
a) Deferred Income Taxes			
Deferred income tax assets	14(c)	944	1,153
Deferred income tax liabilities	14(c)	(2,257)	(2,009)
Net deferred income tax assets/(liabilities)		(1,313)	(856)
b) Movement in Net Deferred Income Tax Assets/(Liabilities) for the Financial Year			
Balance at the beginning of the financial period		(856)	(201)
Charged to the income statement as deferred income tax (expense)/benefit		(457)	(655)
Net balance at the end of the financial year		(1,313)	(856)
c) Deferred Income Tax Assets and Liabilities at the End of the Financial Year Attributable to;			
Deferred income Tax Assets			
Inventories		1	43
Accruals		35	22
Provisions		589	587
Transaction costs relating Initial Public Offer (IPO)		296	493
Other		23	8
Total deferred income tax assets		944	1,153
Deferred income tax liabilities			
Property, plant and equipment		(1,256)	(1,014)
Revaluation adjustments taken directly to equity		(1,014)	(1,014)
Other		13	19
Total deferred income tax liabilities		(2,257)	(2,009)
Movements in Deferred			
Deferred income tax assets			
Inventories		(42)	(12)
Accruals		12	(3)
Provisions		2	169
Transaction costs relating Initial Public Offer (IPO)	14(d)	(198)	(198)
Other		17	(82)
Net movement in deferred income tax assets		(209)	(126)
Deferred income tax liabilities			
Property, plant and equipment		(242)	(519)
Other		(6)	(10)
Net movement in deferred income tax liabilities		(248)	(529)
Net movement in deferred tax assets and liabilities, reflected in the income tax (expense)/benefit		(457)	(655)

(d) Deferred tax relating to costs associated with the Initial Public Offering of Lipa Pharmaceuticals shares on the Australian Stock Exchange on 29 July 2004.

	Note	2007	2006
Note 15: Payables		$000	$000
Current			
Trade creditors		13,985	12,543
Sundry creditors		1,180	998
		15,165	13,541
Note 16: Borrowings			
Current			
Finance lease liability	22(a)	2,025	2,162
Loan payable		-	105
Bills payable		2,340	727
		4,365	2,994
Non-current			
Finance lease liability	22(a)	7,473	7,327
Bills payable		16,259	17,705
		23,732	25,032

(a) Bank borrowings are secured by a registered first mortgage and a floating charge over the assets of the Company. The covenants for bank borrowings requires the interest cover ratio for each financial quarter to be not less than 3:1 of EBIT. Similarly the adjusted gearing ratio for each financial half year must not exceed 1.75:1.

(b) The Carrying Amounts of Assets Pledged as Security Are:

	Note	2007	2006
Fixed and floating charge:			
- Trade debtors		20,464	19,384
- Other assets		65,495	61,745
Total assets pledged as security		85,959	81,129
Note 17: Tax			
(a) Current tax assets			
Income tax		191	746
(b) Current tax liabilities			
Income tax		-	-
Note 18: Provision			
Current			
Employee Benefits			
Opening Balance		767	612
Movements during the year		169	155
Closing Balance		936	767
Non-current			
Employee Benefits			
Opening Balance		890	783
Movements during the year		(211)	107
Closing Balance		679	890
(a) Aggregate employee benefits liability		1,615	1,657
(b) Number of employees directly employed by the Company at the year-end	18(c)	267	152

(c) During the year number of employees previously employed by the company as casual staff were offered permanent positions with the company under the Australian Workplace Agreements.

	Note	2007	2006
		$000	$000
Note 19: Issued Share Capital			
95,573,284 (2006: 93,761,624) fully paid ordinary shares	19(a)	17,944	16,654

(a) Fully Paid Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.
At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Movement in Ordinary Shares on Issue	2007	2007	2006	2006
	Number of Shares 000's	$000	Number of Shares 000's	$000
Ordinary shares at the beginning of the reporting period	93,762	16,654	91,028	12,587
Ordinary shares issued during the year				
- new shares issued 1,627,526 ordinary shares at $0.71 each to shareholders who opted to re-invest their final dividends under the Company's Dividend Re-investment Plan (DRP) on 30 September 2006	1,627	1,156	-	-
- new shares issued 184,134 ordinary shares at $0.730 each to shareholders who opted to re-invest their interim dividends under the Company's Dividend Re-investment Plan (DRP) on 2 April 2007	184	134	-	-
- new shares issued 1,553,128 ordinary shares at $1.6078 each to shareholders who opted to re-invest their final dividends under the Company's Dividend Re-investment Plan (DRP) on 1 September 2005	-	-	1,553	2,497
- new shares issued 1,180,637 ordinary shares at $1.3300 each to shareholders who opted to re-invest their interim dividends under the Company's Dividend Re-investment Plan (DRP) on 28 February 2006	-	-	1,181	1,570
Ordinary shares at the end of the reporting period	95,573	17,944	93,762	16,654

(c) The remuneration structure approved by the shareholders in the Annual General Meeting held on 16 November 2005, provides for a Employee Share Plan (ESP), under the long-term incentive plan. The long-term incentives will be funded by securities in the Company, which will be purchased in trust under the ESP. It is envisaged that performance share rights will vest, if earnings per share growth (EPS) exceeds a pre-determined level. The company announced on 12 February 2007 that it will issue 357,573 Performance share rights (PSR) at the end of the vesting period of 3 years. Under the arrangements of the CK Life Sciences to acquire Lipa Pharmaceuticals, the PSRs currently in issue will vest with the PSR holders if CK Life Sciences succeed with the acquisition (Refer Note 25).

	Note	2007	2006
		$000	$000
Note 20: Reserves			
Share Options Reserve	20(a)	38	25
Employee Performance Share Rights	20(b)	39	-
General Reserve	20(c)	2,365	2,365
		2,442	2,390
(a) Share Options Reserve			
Movements during the year:			
Opening balance		25	12
The value of options issued to Non-executive Directors have been recognised under share capital over the period from their grant date until vesting		13	13
Closing balance	20(d)	38	25
(b) Employee PSR Reserve			
Movements during the year:			
Opening balance		-	-
The value of PSR issued to company executives under the employee share plan during the year		39	-
Closing balance	20(e)	39	-
(c) General Reserve			
Movements during the year:			
Opening balance		2,365	2,365
Movements during the year:		-	-
Closing balance	20(f)	2,365	2,365

(d) Refer remuneration report, under the heading "share options" for the details of share options in issue.

(e) The company announced that it will issue 357,573 performance share rights to selected executive staff. These rights will vest over a three year period between 2007 and 2009. The company has to achieve the performance hurdle set by the Board to be eligible to receive the PSR.

(f) As part of the transition adjustment to AIFRS, the Company elected to use the deemed cost option allowed under the transitional provisions under AASB-1 relating to plant and equipment, which was previously carried at revaluation. As a result, the corresponding reserves have been transferred from Asset Revaluation Reserve and Asset Revaluation Realisation Reserve to the General Reserve.

	Note	2007	2006
Note 21: Retained Profits		$000	$000
Retained profits at the beginning of the financial year		17,598	18,685
Net profit attributable to members of the Company		5,109	5,868
Dividends provided for or paid	7	(4,077)	(6,955)
Retained profits at the end of the financial year		18,630	17,598

	Note	2007	2006
Note 22: Capital and Leasing Commitments		$000	$000
(a) Finance Lease Commitments			
Payable			
- not longer than one year		2,631	2,797
- longer than one year but not longer than five years		8,481	9,378
Minimum lease payments		11,112	12,175
Less future finance charges		(1,614)	(2,686)
Total lease liability	16	9,498	9,489

The finance leases on various plant and equipment are irrevocable four - five year agreements with lease payments paid either monthly in advance or arrears.

(b) Operating Lease Commitments

Non-cancelable operating leases contracted for but not capitalised in the financial statements:

	2007	2006
Payable		
- not longer than one year	174	175
- longer than one year but not longer than five years	254	332
	428	507

This lease is non-cancelable with a five-year term, with rent payable monthly in advance.

(c) Capital Expenditure Commitments

	2007	2006
- Plant and equipment purchases	-	50
- Capital expenditure projects	-	2,428
	-	2,478
Payable		
- not longer than one year	-	-
	-	-

	2007	2006
Note 23: Cash Flow Information	$000	$000
(a) Reconciliation of Cash		
Cash at end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash on hand and at bank	5,583	4,382
(b) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax		
Profit from ordinary activities after income tax	5,109	5,868
Non-cash flows in profit from ordinary activities:		
-Amortisation	974	989
-Depreciation	1,690	922
-Amortisation of excess of carrying value over proceeds received from sales and lease back transaction	36	35
-Net gain on disposal of plant and equipment	-	10
-Share options expensed during the year	13	13
-Employee share rights expensed during the year	39	-
Changes in assets and liabilities:		
- Increase in receivables	(1,082)	(301)
- Increase in other assets	(188)	(170)
- Increase in inventories	(971)	(3,169)
- (Decrease) / Increase in provision for employee benefits	(43)	262
- Increase in payables	1,626	2,342
- Decrease in prepayments	80	150
- Increase / (Decrease) in provision for Income tax payable	555	(1,934)
- Increase in deferred taxes payable	457	655
Cash flows from operations	8,295	5,672

(c) Non-cash financing and investing activities:

Tax Payments

During the period ended 30 June 2007 the Company paid $1.02m tax (2006: $3.91m). The lower tax payment shown in the statement of cashflow has resulted from the net effect of the refund of tax payment of $0.761m from the Australian Tax Office.

	2007	2007	2007	2006
(d) Credit Stand-by Arrangement and Loan Facilities	$000	$000	$000	$000
	Facility	Amount Utilised	Amount Un-utilised	
Bank overdraft	200	-	200	-
Commercial Bills	24,650	(18,599)	6,051	-
Lease Finance Facility	15,751	(9,498)	6,253	-
Total facility (2006)	-	-	-	39,101
Amount utilised (2006)	-	-	-	(27,055)
Unused credit facility	40,601	(28,097)	12,504	12,046

The major facilities, which are subject to annual review, are summarised below:

Bank Overdraft

Lipa Pharmaceuticals has a standard overdraft facility of $0.2m with ANZ Bank to assist with any additional working capital requirements with the general terms and conditions being set and agreed to annually. During the year a temporary increase of $0.7m was organised with the bank, to meet payment commitments. This temporary facility expired on 31 October 2006. Part of this overdraft facility was utilised during the year. The interest rates are variable on this facility and subject to adjustment.

Commercial Bill Facility ($10 million)

The Company has a $10 million (2006: $10 million) standby commercial bill facility provided by ANZ Bank for the financing of additional working capital requirements. This facility has a nominal term of 10 years with interest only term for the first 5 years expiring 31 December 2009. At 30 June 2007, $10 million of this facility was used (2006:$10 million). The interest rate is determined based on the average bid on the Bank Bill Swap Rate plus a margin of 0.2% on the day of the commercial bill draw down.

Other Commercial Bill Facilities ($12.4 million)

The Company has a further $12.4 million (2006: $12.4 million) standby interchangeable commercial bill facility provided by ANZ Bank. At 30 June 2007 the company has used $8.6million (2006:$8.1 million). The facility consists of a number of bills drawn down at different face values. These bill require principal repayment of $0.335 million per quarter. The interest rate is determined based on the average bid on the Bank Bill Swap Rate plus a margin of 0.2% on the day of the commercial bill draw down.

Credit Card Facility

The Company has a $0.150 million (2006: $0.150 million) Credit Card facilities provided by ANZ Bank to assist with managements' business requirements. This facility is offered under general terms and conditions. At 30 June 2007, $24,432 (2006: $17,616) of this facility was used. Interest rates are variable and subject to adjustment.

Lease Finance Facility

The Company has a $15.8 million (2006: $13.6 million) Lease Finance facility provided by ANZ Bank and St.George Bank to assist with purchase of plant and equipment and refinancing existing leases and provide sale and leaseback facility for capital equipment. The Company is entitled to utilise an agreement to lease only upon acceptance by the Bank of a signed lease request. As at 30 June 2007, The Company has utilised $9.5 million (2006: $8.6 million). Specific conditions are applicable to this facility and fees and charges are applicable in accordance with these conditions.

Note 24: Segment Reporting

The Company operates predominantly in one business and geographical segment being manufacturing and distributing non-sterile, over-the-counter nutritional supplementary products throughout Australia.

Note 25: Events Subsequent to Reporting Date

The Board initiated a review of the strategic options available to the company In May 2007, as the company share price did not reflect the true value of the company. The review was concluded in August 2007, where the Board recommended an offer by CK Life Sciences, a Hong Kong based company to acquire 100% of Lipa's shares at $0.95 per share. Details of the offer could be viewed from the market announcement dated 3 August 2007.

On 13 August 2007, Mr. James McBrayer resigned as Chief Executive Officer of the company and was replaced by Mr. Dusko Pejnovic.

Note 26: Contingent Liabilities

	2007	2006
	$000	$000
ANZ Bank has provided a bank guarantee to secure accrued entitlements for employees covered by the Lipa Pharmaceuticals Certified Agreement 2004. The bank guarantee can be called upon only in circumstances where a liquidator, administrator or similar external controller is appointed to Lipa Pharmaceuticals. At the reporting date, the Company was in a sound financial position.	650	650

Note 27: Financial Instruments

(a) Forward Exchange Contracts

The Company enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the Company against exchange rate movements for purchase commitments undertaken in foreign currencies.

At balance date, the details of outstanding forward exchange contracts are:

	Average Exchange Rate		Sell Australian Dollars	
	2007	2006	2007	2006
Buy US Dollars			$000	$000
Less than 6 months	0.8037	-	135	-
6 months to 1 year	-	-	-	-
		-	135	-

	2007	2006
Gains or losses, deferred or unrecognised, from forward exchange contracts		
Deferred losses	7	-
Unrealised losses and contract costs	-	-
	7	-

(b) Interest Rate Risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Non-interest Bearing		Floating Interest Rate		Fixed Interest Rate				Total	
							Within 1 year		1 to 5 years			
	30.06.07	30.06.06	30.06.07	30.06.06	30.06.07	30.06.06	30.06.07	30.06.06	30.06.07	30.06.06	30.06.07	30.06.06
Financial Assets			$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Cash at bank	5.79%	5.95%	-	-	4,934	3,732	-	-	-	-	4,934	3,732
Deposits at call	6.56%	5.50%	-	-	650	650	-	-	-	-	650	650
Receivables			21,943	20,675							21,943	20,675
Unsecured Loans	-	-	-	-	-	-	-	-	-	-	-	-
Total Financial Assets			21,943	20,675	5,584	4,382	-	-	-	-	27,527	25,057
Financial Liabilities												
Unsecured Loans	-	-	-	-	-	-	-	-	-	-	-	-
Bank bills secured	6.46%	6.15%	-	-	18,599	18,432	-	-	-	-	18,599	18,432
Payables			15,164	13,541							15,164	13,541
Lease Liabilities	6.94%	6.81%	-	-	-	-	2,025	2,162	7,473	7,327	9,498	9,489
Total Financial Liabilities			15,164	13,541	18,599	18,432	2,025	2,162	7,473	7,327	43,261	41,462

All other monetary assets and liabilities are non-interest bearing.

(c) Credit Risk

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

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

(d) Net Fair Values

The net fair values of assets and liabilities approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Note 28: Company Details

The registered office of the Company and principal place of business is: Lipa Pharmaceuticals Limited, 21 Reaghs Farm Road, Minto, NSW 2566.

Note 29: Related Party Transactions

	Note	2007 $000	2006 $000
During the year the Company had sales with following director related entities.			
Novogen Limited	(a)	845	380

(a) Mr. Philip Johnston, one of the non-executive directors of Lipa is a director of Novagen Limited.

(b) The Company did not have any other related party transactions during the year, other than the one stated above.

Note 30: Change in Accounting Policy

There were no changes to accounting policies, other than those disclosed in the notes above.

Note 31: Impact of Future Accounting Standards

Directors have considered all pending Australian Accounting Standards issued between the previous financial report, and the current reporting date. The following Australian Accounting Standards have been issued or amended and will have an impact on the company but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB No	Title	Nature of Change	Issue Date of the Standard	Operative Date
AASB 8	Operating Segments	Require segmental reporting as per the internal management reporting.	Feb-07	Jan-09
AASB 123	Borrowing Costs (Amended)	Require capitalisation of borrowing costs with regard to qualifying assets.	Jun-07	Jan-09

Note 32: Registered Office and Principal Place of Business

21 Reaghs Farm Road
Minto NSW 2566

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 28 to 52, are in accordance with the *Corporations Act 2001 and*:

(a) comply with Accounting Standards and the *Corporations Regulations 2001*; and

(b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. The Chief Executive Officer and Chief Finance Officer have each declared that:

(a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

(b) the financial statements and notes for the financial year comply with the accounting Standards; and

(c) the financial statements and notes for the financial year give a true and fair view.

This declaration is made in accordance with a resolution of the Board of Directors.

John Harkness
Chairman

Dated this 29th day of August 2007

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LIPA PHARMACEUTICALS LIMITED

We have audited the accompanying financial report of Lipa Pharmaceuticals Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

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

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standards AASB 124 Related Party Disclosures, under the heading "remuneration report" on pages 20 to 26 of the directors' report and not in the financial report.

Auditor's responsibility

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

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

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

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Independence

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

Auditor's opinion

In our opinion:

(a) The financial report of Lipa Pharmaceuticals Limited is in accordance with the Corporations Act 2001, including:

  i. giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
  ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

(c) The remuneration disclosures that are contained on the pages 20 to 26 of the directors' report comply with Accounting Standard AASB 124.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney 29 August 2007

SUPPLEMENTARY INFORMATION

The shareholder information set out below was applicable as at 27 August 2007

1. Shareholding

(a) Distribution of shareholders

Category (Size of Holding)	Number of Holders Ordinary Shares	Number of Holders Unlisted Options
1 – 1,000	224	128,677
1,001 – 5,000	820	2,493,948
5,001 – 10,000	443	3,531,328
10,001 – 100,000	456	11,176,352
100,001 – and over	25	78,242,979
	1,968	95,573,284

(b) The number of shareholdings held in less than marketable parcels	126

(c) Substantial shareholders

The names of the substantial shareholders listed in the Company's register as at 27 August 2007 are:

Shareholder	Number of Fully Paid Ordinary Shares
Gorge Jovanov	24,952,922
Stanika Jovanova	24,952,922
Trojan Equity Limited	9,235,708

(d) Voting rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy

Option holders are not entitled to vote

(e) 20 Largest shareholders — ordinary shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Gorge Jovanov	24,952,922	26.11%
Stanika Jovanova	24,952,922	26.11%
ANZ Nominees Ltd	9,270,409	9.70%
UBS Nominees Pty Ltd	6,179,482	6.47%
HBC Custody Nominees (Australia) Ltd	5,697,097	5.96%
Citicorp Nominees Pty Ltd	4,147,836	4.34%
Desert Oasis Pty Ltd	330,740	0.35%
Les Back Investments Pty Ltd	300,000	0.31%
HMS Nominees Ltd	300,000	0.31%
CRX Investments Pty Ltd	200,000	0.21%
J & J Collins Pty Ltd	200,000	0.21%
Lakaev Pty Ltd	200,000	0.21%
Progress & Properties Construction (No 2) Pty Ltd	200,000	0.21%
Sandstone Nominees Ltd	198,386	0.21%
Mr Hans Joerg Zinsli and Mrs Alison Norah Zinsli	190,000	0.20%
Somersview Nominees Pty Ltd	160,000	0.17%
Mr John Bamford	151,655	0.16%
Endes Pty Ltd	150,000	0.16%
Mr Robin Edward Ziesemeer and Mrs Beverley Anne Ziesemer	150,000	0.16%
Bardia Nominees Pty Ltd	144,541	0.15%
	78,075,990	81.69%
Total issued ordinary shares	95,573,284	100

Corporate Directory

Directors
John Harkness (Non-Executive Chairman)
Gorge Jovanov (Managing Director)
Stanika Jovanova (Executive Director)
Philip Johnston (Non-Executive Director)
Rod McGeoch (Non-Executive Director)

Company Secretary
Tom McDonald FCPA, ACIS, B.Comm (Chief Financial Officer)

Registered Office
21 Reaghs Farm Road
Minto NSW 2566
Telephone: 02 8796 1400
Fax: 02 8796 1444

Share Register
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Telephone: 1300 554 474
Telephone: 02 8280 7111
Fax: 02 9287 0303
Email: registrars@linkmarketservices.com.au

Auditors
Grant Thornton NSW
Level 17, 383 Kent Street
Sydney NSW 2000

Bankers
Australia and New Zealand
Banking Group Limited
Level 1, 40 Restwell Street
Bankstown NSW 2200