

Endocrinz Limited

Annual Report & Financial Statements

For the Period Ended 31 December 2002

Endocrinz Limited

Annual Report & Financial Statements

For the Period Ended 31 December 2002

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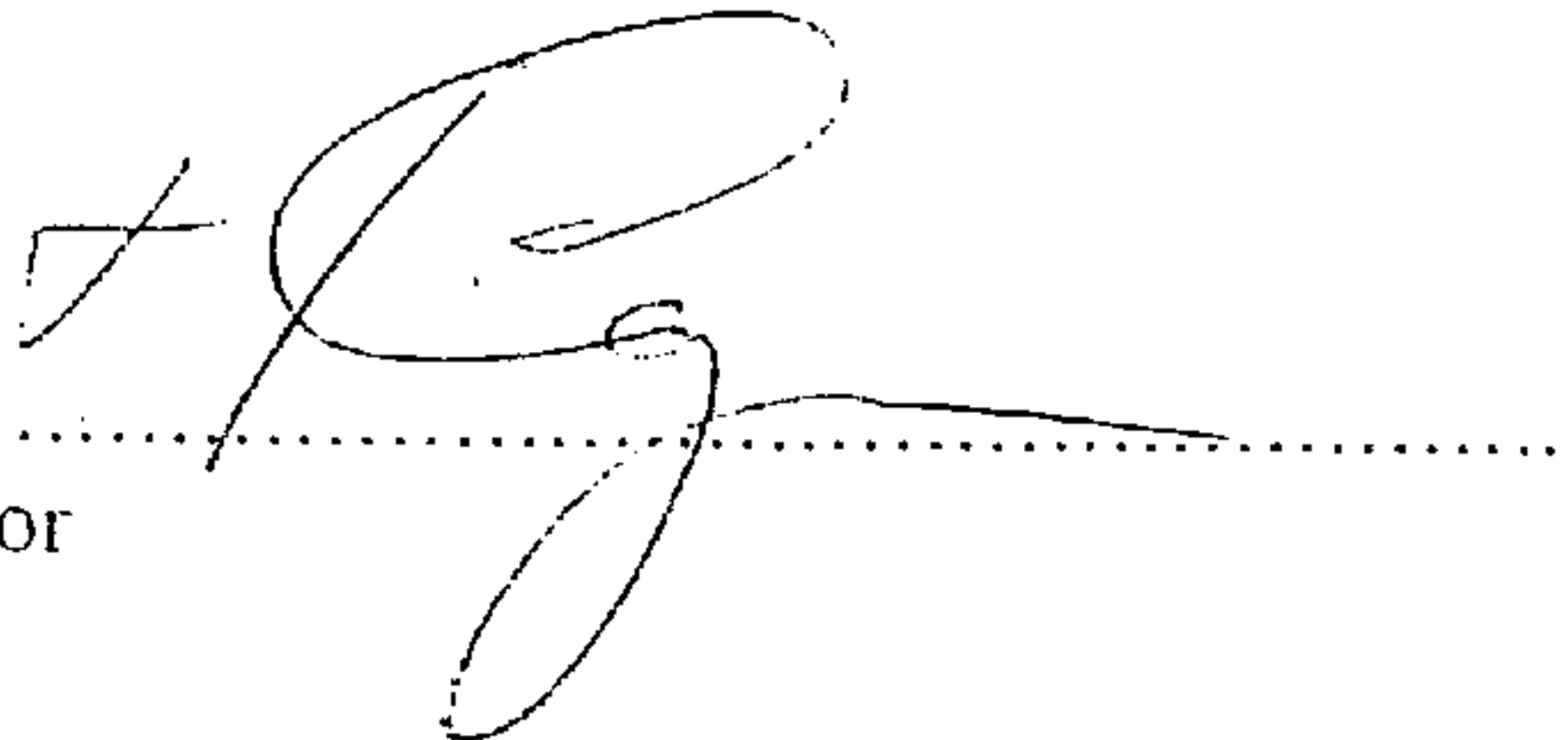
Endocrinz Limited

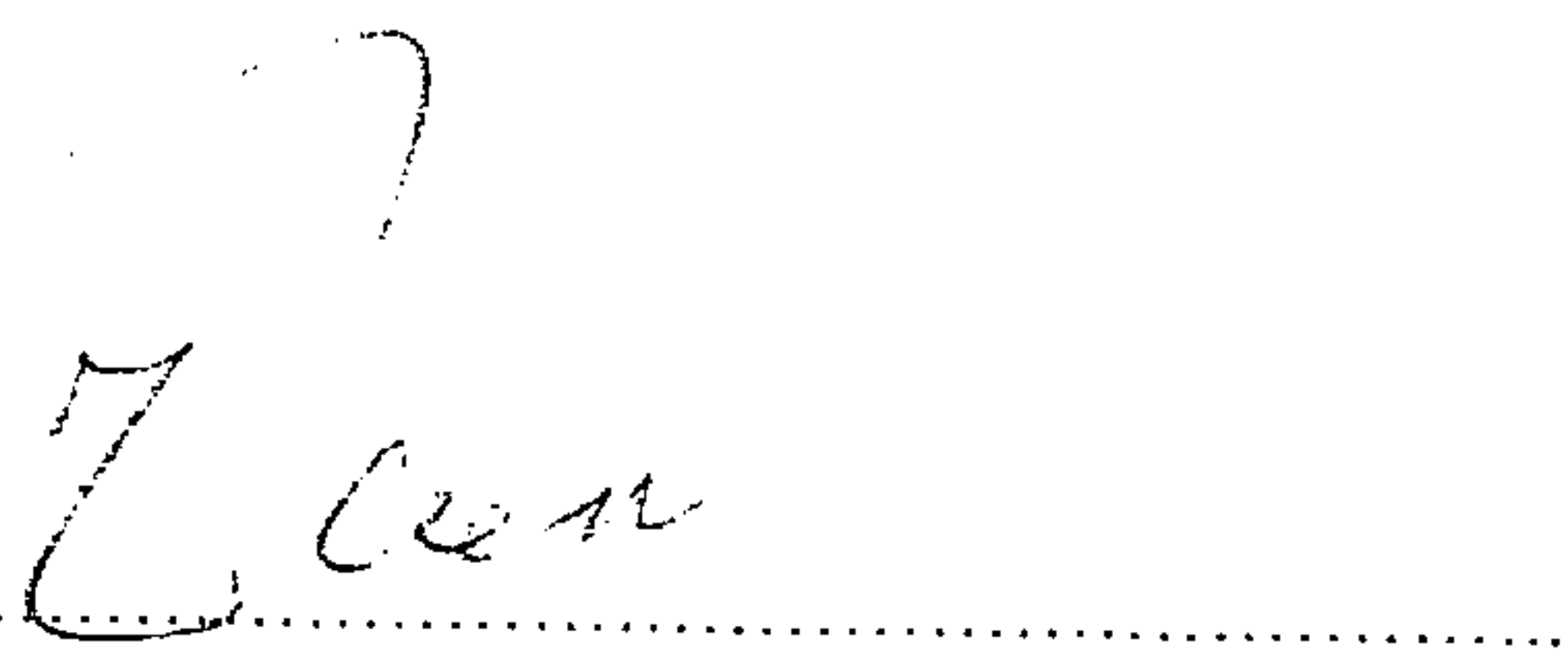
Annual Report

For the Period Ended 31 December 2002

The Board of Directors is pleased to present the Annual Report of Endocrinz Limited which includes all information required to be disclosed under the Companies Act 1993, incorporating the financial statements and auditors' report, for the period ended 31 December 2002.

The annual report presented on pages 1 to 3 and the financial statements presented on pages 6 to 18 are signed for and on behalf of the Board and were authorised for issue on the date below.


.....
Director


.....
Director

..... 16 June 2003

Date

Endocrinz Limited

Annual Report

For the Period Ended 31 December 2002

Principal Activities

Endocrinz Limited is a bioscience company operating solely within New Zealand whose principal business activity is the facilitation of the discovery and development of human therapeutics for metabolic disease, diabetes and growth related disorders. The Company also operates in the development of treatments for agricultural use.

Performance Overview

The Company was incorporated on 17 December 2001 and commenced operations in February 2002. During this initial 13 month period, the Company has established its core scientific and operational capabilities streamlining these towards commercial end points.

The operating deficit of \$1,653,000 for the period includes \$931,000 of initial set up expense and \$418,000 of non operational dividends on preference shares (refer note 8 to the accounts). The detailed financial statements are presented on pages 6 to 18.

The deficit per share of \$1.47 is based on 840,000 weighted average number of shares outstanding.

No dividends were paid in the year.

Interests Register

The Company is required to maintain an interests register in which particulars of certain transactions and matters involving directors must be recorded. Details of the entries in this register for each of the directors are as follows:

Mr J Balter

Mr Balter has a relevant interest in 630,000 Ordinary Shares as at 31 December 2002, in his capacity as a director.

Mr Balter has acted in advisory capacities to the New Zealand Seed Fund Management Limited which is a shareholder in Endocrinz Limited.

Mr Balter resigned as a director on 5 December 2002.

Mr R L Congreve

Mr Congreve has a relevant interest in 630,000 Ordinary Shares and 833,333 Series A Preference Shares as at 31 December 2002, in his capacity as director.

Mr Rodney Lappe

Mr Lappe has a relevant interest in 2,500,000 Series B Preference Shares as at 31 December 2002, in his capacity as director.

Mr Trevor Donald Scott

Mr Scott has a relevant interest in 833,334 Series A Preference Shares as at 31 December 2002, in his capacity as director

Endocrinz Limited

Annual Report

For the Period Ended 31 December 2002

There are no other matters registered by the directors which are considered to cause any potential conflict of interest as at 31 December 2002.

Directors and remuneration	Other Remuneration 2002 \$'000
RL Congreve (Appointed 17 December 2001)	-
J Balter (Appointed 17 December 2001, Resigned 5 December 2002)	420
R Lappe (Appointed 5 March 2002)	-
T Scott (Appointed 5 March 2002)	-

No directors received any fees for holding office.

Employees and remuneration

The number of employees in the Company receiving remuneration and benefits above \$100,000 per annum are as follows:

\$110,000 - \$119,000	2002 1
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Donations

The Company made no donations during the period.

Auditors

PricewaterhouseCoopers are the auditors of the Company. During 2002 PricewaterhouseCoopers received \$10,000 in relation to audit services.

Auditors' Report

To the shareholders of Endocrinz Limited

We have audited the financial statements on pages 6 to 17. The financial statements provide information about the past financial performance of the Company for the period ended 31 December 2002 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 9 to 12.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 31 December 2002 and its financial performance for the period ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacities as auditors and tax advisers.

Auditors' Report

Endocrinz Limited

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 6 to 17:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Company as at 31 December 2002 and its financial performance for the year ended on that date.

Our audit was completed on 16 June 2003 and our unqualified opinion is expressed as at that date.

Price Waterhouse Coopers

Chartered Accountants

Auckland

Endocrinz Limited

Statement of Financial Performance

For the Period Ended 31 December 2002

	Notes	2002 \$'000
Operating Revenue		
Research revenues		1,848
Interest income		273
Total Operating revenue		<u>2,121</u>
Operating expenses		
Research		2,458
Finance and administration		1,316
		<u>3,774</u>
Operating deficit before taxation	2	(1,653)
Income Tax	3	0
Net deficit		<u>(1,653)</u>
Net deficit per share:		
Basic	1	(\$1.47)
Diluted	1	<u>(\$1.47)</u>
Weighted average number of shares outstanding:		
Basic	1	840,000
Diluted	1	<u>840,000</u>

The accompanying notes form an integral part of these financial statements.

Endocrinz Limited

Statement of Movements in Equity

For the Period Ended 31 December 2002

	Share capital		Accumulated deficit	Total
	Shares	Amount		
		\$'000	\$'000	\$'000
Opening Shareholders' Equity	0	0	0	0
Movement in period				
Ordinary Shares Issued	840,000	8	0	8
	<u>840,000</u>	<u>8</u>	<u>0</u>	<u>8</u>
Net deficit 2002	0	0	(1,653)	(1,653)
Total recognised revenue and expenses	<u>0</u>	<u>0</u>	<u>(1,653)</u>	<u>(1,653)</u>
Total Shareholders' Deficit At 31 December 2002	<u>840,000</u>	<u>8</u>	<u>(1,653)</u>	<u>(1,645)</u>

The accompanying notes form an integral part of these financial statements.

Endocrinz Limited

Statement of Financial Position

As at 31 December 2002

	Notes	2002 \$'000
ASSETS		
Current assets:		
Cash and cash equivalents	5	4,540
Receivable from related party		304
Work in progress		833
Other current assets		469
Total current assets		<u>6,146</u>
Non-current assets:		
Fixed assets	6	294
Total non current assets		<u>294</u>
TOTAL ASSETS		<u>6,440</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	7	1,351
Total current liabilities		<u>1,351</u>
Non-current liabilities:		
Long term debt	8	6,734
Total liabilities		<u>8,085</u>
SHAREHOLDERS' DEFICIT		
Share capital	4	8
Accumulated deficit		(1,653)
Total net shareholders' deficit		<u>(1,645)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		<u>6,440</u>

The accompanying notes form an integral part of these financial statements.

Endocrinz Limited

Statement of Accounting Policies

For the Period Ended 31 December 2002

Nature of business

Endocrinz Limited is a bioscience company operating solely within New Zealand whose principal business activity is the facilitation of the discovery and development of human therapeutics for metabolic disease, diabetes and growth related disorders. The Company also operates in the development of treatments for agricultural.

The Company's development activities involve inherent risks. These risks include, among others: dependence on, and the Company's ability to retain key personnel; the Company's ability to protect its intellectual property and prevent other companies from using the technology; the Company's business is based on novel and unproven technology; and the Company's ability to maintain funding through its research activities with corporate sources.

In addition, the Company has, through the disclosure of its Preference Share capital (refer note 8) within non-current liabilities in the statement of financial position, a total net shareholders' deficit of \$1,645,000 as at 31 December 2002.

The directors believe the business to be a going concern for the foreseeable future and as a minimum for a period not less than 12 months from the date of signing the financial statements. This is based upon the Company's cash reserves and ability to maintain funding through its research activities with corporate sources.

Summary of significant accounting policies

The accompanying financial statements of the Company are for the period ended 31 December 2002, and are based on the general principals of historical cost accounting. They are presented in accordance with the Companies Act 1993 and have been prepared in accordance with the Financial Reporting Act 1993, in conformity with generally accepted accounting practice in New Zealand.

Revenue

Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Science Contracts

Where science projects are recognised on an individual project basis and span more than one period, the percentage completion method is used to determine the appropriate amount of revenue to recognise in a given period. The full amount of an anticipated loss, including that relating to future work on the contract, is recognised as soon as it is foreseen.

Grants

Grants received are recognised in the statement of financial performance when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Investment income

Dividend income is recognised in the period the dividend is declared.
Interest and rental income are accounted for as earned.

Endocrinz Limited

Statement of Accounting Policies

For the Period Ended 31 December 2002

Estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Goods and services tax (GST)

The financial statements have been prepared so that all components are presented exclusive of GST. All items in the statement of financial position are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

Translation of foreign currency

The financial statements are expressed in New Zealand dollars, the functional currency of the Company. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies arising from operations are translated into New Zealand dollars using closing exchange rates in effect at period end. Gains and losses due to exchange rate fluctuations on these items are included in the statement of financial performance.

Research and development

Research costs include direct and directly attributable overhead expenses for drug discovery and research and pre-clinical trials. Research costs are expensed as incurred.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the process or products produced, development expenditure is recognised as a development asset when :

- a product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the existence of a market for the product or process can be demonstrated and the Company intends to produce and market the product or process;
- adequate resources exist, or their availability can be reasonably demonstrated to complete the project and market the product or process.

In such cases the asset is amortised from the commencement of commercial production of the product to which it relates on a straight line basis over the period of expected benefit. Research and development costs are otherwise expensed as incurred.

Intellectual property

Costs in relation to protection and maintenance of intellectual property are expensed as incurred unless the project has yet to be recognised as commenced, in which case the expense is deferred and recognised as contract work in progress until the revenues and costs associated with the project are recognised.

Taxation

The tax expense recognised for the period is based on the accounting surplus, adjusted for permanent differences

Endocrinz Limited

Statement of Accounting Policies

For the Period Ended 31 December 2002

between accounting and tax rules. The impact of all timing differences between accounting and tax income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised. No tax asset is recognised in the financial statements for the period ended 31 December 2002.

Impairment

The Company reviews long-lived assets, including intangible assets, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount of a long lived asset is considered impaired when the estimated undiscounted cashflow from such asset is less than its carrying value. In that event, a loss is recognised in the statement of financial performance based on the amount by which the carrying amount exceeds the fair market value of the long lived asset. Fair market value is determined using the anticipated cashflows discounted at a rate commensurate with the risk involved.

Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits held with established financial institutions and highly liquid investments, which are readily convertible into cash and have maturities of three months or less.

Accounts receivable

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.

Contract work in progress

Contract work in progress is stated at cost less amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of general science overhead expenses incurred by the Company.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided using rates advised and used by the Inland Revenue Department. The directors consider those rates to be appropriate for the Company.

	D.V.
Scientific equipment	21.6%
Computer equipment	39.6% - 48%
Office furniture	26.4% - 60%
Improvements	9% - 11.4%
Fixtures and Fittings	14.4% - 26.4%

Repairs and maintenance and gains and losses on sale or disposal of assets are reflected in the statement of financial performance as incurred. Major renewals and betterments are capitalised.

Endocrinz Limited

Statement of Accounting Policies

For the Period Ended 31 December 2002

Employee entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other benefits are recognised when they accrue to employees.

The liability for employee entitlements is carried at the present value of the estimated future cash outflow.

Financing costs

Costs associated with the issue of shares which are recognised in shareholders' equity are treated as a reduction of the amount collected per share. Costs associated with the issue of shares which are recognised within non current liabilities on the balance sheet are expensed in the period accrued.

Financial instruments

Financial instruments recognised in the statement of financial position include cash and cash equivalents, accounts receivable, accounts payable and redeemable preference shares. With the exception of the redeemable preference shares, the Company believes that the amounts reported for financial instruments approximate fair value due to their short term nature. There are no unrecognised financial instruments.

The Company has no exposure to credit risk.

Differential Reporting

The Company is a qualifying entity within the Framework for Differential Reporting. The Company qualifies on the basis that it is not publicly accountable and is not a large entity. The Company has taken advantage of all differential reporting concessions except for SSAP 12 in relation to accounting for income tax using the liability method where it has applied the exemption in relation to disclosures only and FRS 19 Accounting for Goods and Services Tax.

Changes in accounting policies

There have been no changes in accounting policies during the period.

Period of operation

The Company was incorporated on 17 December 2001. Trading commenced February 2002. The financial statements presented are for the initial 13 month period hence no comparative figures are given.

Endocrinz Limited

Notes to the Financial Statements

For the Period Ended 31 December 2002

1. Net deficit per share

Basic net deficit per share is based upon the weighted average number of outstanding Ordinary Shares. For the period ended 31 December 2002, the Company's potentially dilutive common share equivalents being the Series A and Series B Preference Shares (refer note 8) have an anti-dilutive effect on net deficit per share and, therefore, have not been used in determining the total weighted average number of common shares outstanding for the purpose of calculating diluted net deficit per share.

The following table sets forth the computation of basic and diluted net deficit per share:

	2002 \$'000
Basic:	
Unadjusted net deficit	(1,653)
Add: Preference Share dividend	418
Adjusted net deficit	<u>(1,235)</u>
Weighted Average Shares Outstanding:	<u>840,000</u>
Net deficit per share	<u>(\$1.47)</u>
Diluted:	
Unadjusted Net deficit	(1,653)
Add: Preference Share dividend	418
Adjusted net deficit	<u>(1,235)</u>
Weighted Average Shares Outstanding:	<u>840,000</u>
Net deficit per share	<u>(\$1.47)</u>

2. Operating deficit

	2002 \$'000
Operating Deficit is stated after charging:	
Accounting fees	29
Fees paid to auditors	35
Depreciation	
Scientific equipment	12
Computer equipment	56
Fixtures and fittings	3
Office furniture	6
Leasehold improvements	1
Total Depreciation	<u>78</u>
Preference share dividend	418
Legal fees	245
Rent expense	<u>22</u>

Endocrinz Limited

Notes to the Financial Statements

For the Period Ended 31 December 2002

3. Income tax

The Company has an estimated income tax loss of \$1,031,000 in 2002 to be carried forward subject to the requirements of income tax legislation being met and the Company maintaining shareholder continuity. The potential benefit associated with these losses of \$340,000 has not been recognised.

	2002 \$'000
Net Deficit per accounts	(1,653)
Timing Differences	
Holiday pay provision	13
Permanent Differences	
Dividend on preference shares	418
Legal fees non deductible	182
Entertainment non deductible	9
Estimated income tax loss	<u>(1,031)</u>

4. Share capital

	2002 000
Authorised and issued share capital	
Ordinary shares	
Balance at beginning of period	0
Shares authorised and issued during the period	<u>840</u>
Balance at end of period	<u>840</u>
Share capital	2002 \$'000
Ordinary shares	
Balance at beginning of period	0
Shares issued during the period	<u>8</u>
Balance at end of period	<u>8</u>
Total share capital	<u>8</u>

On 15 January 2002 the Company issued 840,000 ordinary shares at a subscription price of NZ\$0.01. All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

Endocrinz Limited

Notes to the Financial Statements

For the Period Ended 31 December 2002

5. Cash and cash equivalents

	2002 \$'000
Cash and cash equivalents consists of the following:	
Cash	52
Demand deposits	4,488
	<hr/>
	4,540
	<hr/>

6. Fixed assets

	2002 \$'000
Fixed Assets consist of the following:	
Cost:	
Scientific equipment	130
Computer equipment	184
Fixtures and fittings	24
Office furniture	26
Leasehold improvements	8
	<hr/>
	372
	<hr/>
Less accumulated depreciation:	
Scientific equipment	12
Computer equipment	56
Fixtures and fittings	3
Office furniture	6
Leasehold improvements	1
	<hr/>
	78
	<hr/>
Fixed assets, net book value	294
	<hr/>

7. Accounts payable and accrued liabilities

	2002 \$'000
Accounts payable and accrued liabilities consist of the following:	
Trade accounts payable	1,000
Employee related payables	48
Other accruals	303
	<hr/>
	1,351
	<hr/>

Endocrinz Limited

Notes to the Financial Statements

For the Period Ended 31 December 2002

8. Long term debt

	2002 \$'000
Series A Preference Shares issued	1,667
Series B Preference Shares issued	4,649
Accrued Series A and B Preference Share dividend	418
	<hr/>
	6,734
	<hr/>

On 17 December 2001 the Company issued 100 Class A shares at a subscription price of NZ\$1. These were reclassified into Series A Preference Shares on 5 March 2002 pursuant to a shareholders resolution. Also on 5 March 2002 an additional 1,666,567 Series A Preference Shares were issued at a subscription price of NZ\$1 per share respectively.

On 5 March 2002 the Company issued 2,500,000 Series B Preference Shares at a subscription price of NZ\$1.86.

The Series A and Series B Preference Shares carry the right to receive cumulative dividends of 8% of the issue price per annum, are convertible into the same number of Ordinary Shares at any time by the Preference Shareholder and also automatically on the occurrence of the closing of a Qualified Public Offering or by a majority resolution of the Preference Shareholders. Each Preference Share carries one vote and ranks ahead of Ordinary Shares for the amount paid up and any accrued and unpaid dividends if the Company is wound up. Thereafter, each Preference Share ranks pari passu with the Ordinary Shares. Preference Shares must be redeemed six years after issue if they have not been converted to Ordinary Shares before that time. Accordingly, they are of the nature of debt rather than equity.

As at 31 December 2002 there were 1,666,667 Series A and 2,500,000 Series B Preference shares on issue with the following redemption dates:

Series A :	5 March 2008	1,666,667 shares
Series B :	5 March 2008	2,500,000 shares

All shares have a redemption value equal to the amount paid per share in NZ\$ plus any accrued but unpaid dividends.

The 8% Preference Share dividends has been accrued for up to 31 December 2002 and is disclosed as Preference Share Dividend within the operating deficit for the year.

The directors believe the monetary value of the Preference Shares and associated dividend to be a prudent estimate of the fair value of the financial instrument due to the interests of and intellectual property held by the Company.

EndocrinZ Limited

Notes to the Financial Statements

For the Period Ended 31 December 2002

9. Commitments and contingencies

Operating leases

There are no commitments or contingencies not recognised in the financial statements.

Legal claims

The Company has not entered into any collaborative arrangements and has no other significant legal contingencies as at 31 December 2002.

Capital commitments

The Company is not committed to the purchase of any plant or equipment as at 31 December 2002.

10. Related party transactions

Pharmacia & Upjohn Company are a related party by virtue of their direct holding of 2,500,000 Series B Preference Shares. During the period, Pharmacia & Upjohn Company engaged EndocrinZ Limited to perform commercial research. The total value of this research is material to EndocrinZ Limited with all associated balances disclosed appropriately within the financial statements. On 16 April 2003 Pharmacia & Upjohn Company was taken over by Pfizer Inc.

Mr J Balter was a related party of EndocrinZ Limited by virtue of his directorship. Fees for management consulting were paid to The Ulysses Group during the period, an entity in which Mr J Balter is a partner. Mr Balter resigned as a director on 5 December 2002.

EndocrinZ Founders Limited is an entity jointly owned by Mr R Congreve, Mr J Balter and Prof P Gluckman. Mr R Congreve and Mr J Balter have been directors of EndocrinZ Limited in the period and Prof P Gluckman is a direct shareholder in EndocrinZ limited and acts in a scientific consultancy role to EndocrinZ limited. Each hold an equal number of shares in and are directors of EndocrinZ Founders Limited. EndocrinZ Founders Limited holds 630,000 Ordinary Shares in EndocrinZ Limited as at 31 December 2002.

Certain other scientific consultants to the Company hold minority shareholdings of ordinary shares as at 31 December 2002.

The Company has had no other significant transactions with related parties during the period.

11. Employee share ownership plans

The Board is committed to assisting employees to have an ownership stake in the Company.

Shares, which have yet to be issued and may be of varying classes, have nominally been set aside to be allocated to staff under employee share ownership plans.

As at 31 December 2002, the share option plans had not been formalised.

Endocrinz Limited

Directory

As at 31 December 2002

Registered office

Level 3
2-6 Park Avenue
Grafton
Auckland

Accountants

Wilson Partners Limited
3047 Great North Road
New Lynn
Auckland

Auditors

PricewaterhouseCoopers
188 Quay Street
Private Bag 92 162
Auckland