Endocrinz Limited

Annual Report & Financial Statements

For the Year Ended 31 December 2003

Endocrinz Limited

Annual Report & Financial Statements

For the Year Ended 31 December 2003

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Endocrinz Limited

Annual Report

For the Year Ended 31 December 2003

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 year ended 31 December 2003.

The annual report presented on pages 1 to 3 and the financial statements presented on pages 6 to 19 are signed for and on behalf of the Board and were authorised for issue on the date below.

.... Director

.... Director

31 May 2004
....
Date

Endocrinz Limited

Annual Report

For the Year Ended 31 December 2003

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 and growth related disorders. The Company also operates in the development of treatments for agricultural use.

Subsequent to balance date, the Company acquired the assets, liabilities and business as a going concern of a related party, NeuronZ Limited.

Performance Overview

During the year the Company has added to its core scientific and operational capabilities. Whilst the Company increased its contract research revenues by $987,000 in the year, the level of operational and research capability costs resulted in the overall operating deficit for the year.

The operating deficit for the year was $3,872,000 (2002: $1,653,000). The detailed financial statements are presented on pages 6 to 19.

The net dilutive deficit per share of $4.00 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:

<u>Dr R L Congreve</u>

Dr Congreve has a relevant interest in 630,000 Ordinary Shares and 833,333 Series A Preference Shares as at 31 December 2003, in his capacity as director.

<u>Mr R Lappe</u>

Mr Lappe has a relevant interest in 2,500,000 Series B Preference Shares as at 31 December 2003, in his capacity as director. Mr Lappe resigned as a director on 2 April 2004.

<u>Mr T D Scott</u>

Mr Scott has a relevant interest in 833,334 Series A Preference Shares as at 31 December 2003, in his capacity as director.

There are no other matters registered by the directors which are considered to cause any potential conflict of interest as at 31 December 2003.

Directors and remuneration

		Other Remuneration 2003 $'000	Other Remuneration 2002 $'000
RL Congreve		20	-
R Lappe	(Appointed 5 March 2002, Resigned 2 April 2004)	-	-
T D Scott	(Appointed 5 March 2002)	25	-

Employees and remuneration

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

	2003	2002
$110,000 - $119,000	-	1
$370,000 - $379,000	1	-

Donations

The Company made no donations during the year. (2002: nil)

Auditors

PricewaterhouseCoopers are the auditors of the Company. Audit fees are $12,000 (2002: $15,000). During 2003 PricewaterhouseCoopers also received $20,000 (2002: nil) in relation to other financial advice.

PRICEWATERHOUSECOOPERS

Auditors' Report

To the shareholders of Endocrinz Limited

We have audited the financial statements on pages 6 to 19. The financial statements provide information about the past financial performance of the Company for the period ended 31 December 2003 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 2003 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.

PRICEWATERHOUSECOOPERS

Auditors' Report
Endocrinz Limited

Fundamental uncertainty

In forming our unqualified opinion, we have considered the ongoing need to fund the operating losses and future development of the Company's products.

The financial statements have been prepared on a going concern basis, the validity of which depends on the Company's ability to raise additional financing through public or private equity financings, collaborations or other arrangements with corporate sources or other sources of financing to fund the development of products and other working capital requirements of the Company. The financial statements do not include any adjustments that would result from a failure to obtain funding. Details of the circumstances relating to this fundamental uncertainty are detailed in the Statement of Accounting Policies on page 9 and in Note 12 on page 18.

If the Company was unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reflect the situation that the assets may need to be realised at other than amounts at which they are currently recorded in the Statement of Financial Position.

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 19:

   (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 2003 and its financial performance for the year ended on that date.

Our audit was completed on 31 May 2004 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Auckland

Endocrinz Limited

Statement of Movements in Equity

For the Year Ended 31 December 2003

	Share capital			
	Shares	Amount	Accumulated deficit	Total
		$'000	$'000	$'000
Opening Shareholders' Equity as at 1 January 2002	-	-	-	-
Movement in period				
Ordinary Shares Issued	840,000	8	-	8
Net deficit 2002	-	-	(1,653)	(1,653)
Total recognised revenue and expenses	-	-	(1,653)	(1,653)
Total Shareholders' Equity as at 31 December 2002	840,000	8	(1,653)	(1,645)
Opening Shareholders' Equity as at 1 January 2003	840,000	8	(1,653)	(1,645)
Net deficit 2003	-	-	(3,872)	(3,872)
Total recognised revenue and expenses	-	-	(3,872)	(3,872)
Total Shareholders' Equity as at 31 December 2003	840,000	8	(5,525)	(5,517)

Endocrinz Limited

Statement of Financial Performance

For the Year Ended 31 December 2003

	Notes	2003 $'000	2002 $'000
Operating Revenue			
Research revenues		2,835	1,848
Interest income		160	273
Total Operating revenue		2,995	2,121
Operating expenses			
Research		4,724	2,458
Finance and administration		2,143	1,316
		6,867	3,774
Operating deficit before taxation	2	(3,872)	(1,653)
Income Tax	3	-	-
Net deficit		(3,872)	(1,653)
Net deficit per share:			
Basic	1	($4.61)	($1.97)
Diluted	1	($4.00)	($1.47)
Weighted average number of shares outstanding:			
Basic	1	840,000	840,000
Diluted	1	840,000	840,000

Endocrinz Limited

Statement of Financial Position

As at 31 December 2003

	Notes	2003 $'000	2002 $'000
ASSETS			
Current assets:			
Cash and cash equivalents	5	1,400	4,540
Receivable from related parties	11	782	304
Convertible note receivable	6	400	-
Work in progress		-	833
Other current assets		270	469
Total current assets		2,852	6,146
Non-current assets:			
Fixed assets	7	256	294
Total non current assets		256	294
TOTAL ASSETS		3,108	6,440
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities:			
Accounts payables and accrued liabilities	8	1,386	1,351
Total current liabilities		1,386	1,351
Non-current liabilities:			
Long-term debt	9	7,239	6,734
Total liabilities		8,625	8,085
SHAREHOLDERS' DEFICIT			
Share capital	4	8	8
Accumulated deficit		(5,525)	(1,653)
Total net shareholders' deficit		(5,517)	(1,645)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		3,108	6,440

Endocrinz Limited

Statement of Accounting Policies

For the Year Ended 31 December 2003

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 and growth related disorders. The Company also operates in the development of treatments for agricultural use.

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; 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 9) within non-current liabilities on the balance sheet, a total net shareholders deficit of $5,517,000 (2002: $1,645,000) as at 31 December 2003.

The Company has a business plan, which will require a high level of expenditures until product revenue streams are established and therefore expects to continue to incur additional net losses through this time. In the future, the Company will need to raise additional financing through public or private equity financings, collaborations or other arrangements with corporate sources, or other sources of financing to fund operations. There can be no assurance that such additional financing, if available, can be obtained on terms reasonable to the Company. In the event the Company is unable to raise additional capital, future operations will need to be curtailed or discontinued. These matters raise doubt about the Company's ability to continue as a going concern. Refer to note 12 of the financial statements on page 18.

Subsequent to the year end, the Company has secured additional funding through the award of several grants supporting its future business and operations and further contract research.

Summary of significant accounting policies

The accompanying financial statements of the Company are for the year ended 31 December 2003, and are based on the general principles 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 year, the percentage completion method is used to determine the appropriate amount of revenue to recognise in a given year over the life of the project. Contract revenue is recognised when earned and non-refundable and when there are no future obligations pursuant to the revenue, in accordance with the contract terms. 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.

Endocrinz Limited

Statement of Accounting Policies

For the Year Ended 31 December 2003

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

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 year. 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 year 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 year 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.

Endocrinz Limited

Statement of Accounting Policies

For the Year Ended 31 December 2003

Taxation

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences 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 year ended 31 December 2003.

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.

Plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is determined principally on a straight-line basis for plant, equipment and office furniture and fittings, based upon the following estimated useful lives:

Scientific equipment	4 years
Computer equipment	2 years
Office furniture, fixtures & fittings	4 years
Leasehold Improvements	Term of lease

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 Year Ended 31 December 2003

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 year 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 year.

Endocrinz Limited

Notes to the Financial Statements

For the Year Ended 31 December 2003

1. Net deficit per share

Basic net deficit per share is based upon the weighted average number of outstanding Ordinary Shares. For the year ended 31 December 2003, the Company's potentially dilutive common share equivalents being the Series A and Series B Preference Shares (refer note 9) 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:

	2003 $'000	2002 $'000
Basic:		
Unadjusted net deficit	(3,872)	(1,653)
Weighted Average Shares Outstanding:	840,000	840,000
Net deficit per share	($4.61)	($1.97)
Diluted:		
Unadjusted Net deficit	(3,872)	(1,653)
Add: Preference Share dividend	505	418
Adjusted net deficit	(3,367)	(1,235)
Weighted Average Shares Outstanding:	840,000	840,000
Net deficit per share	($4.00)	($1.47)

2. Operating deficit

Operating Deficit is stated after charging:	2003 $'000	2002 $'000
Accounting fees	-	49
Audit fees	12	15
Other fees paid to auditors	20	-
Directors fees	45	-
Depreciation		
Scientific equipment	63	12
Computer equipment	101	56
Fixtures and fittings	13	3
Office furniture	-	6
Leasehold improvements	4	1
Total Depreciation	**181**	**78**
Preference share dividend	505	418
Legal fees	38	245
Rent expense	153	22

Endocrinz Limited

Notes to the Financial Statements

For the Year Ended 31 December 2003

3. Income tax

The Company had total recognised income tax losses carried forward from 2002 of $934,000 with a tax effect of $308,000.

In addition, the Company has an estimated income tax loss of $3,293,000 in 2003 (2002: $934,000 estimated loss) with a tax effect of $1,087,000 (2002: $308,000) 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 $1,087,0000 (2002: $308,000) has not been recognised.

	2003 $'000	2002 $'000
Net Deficit per accounts	(3,872)	(1,653)
Timing Differences		
Holiday pay provision	12	8
Permanent Differences		
Dividend on preference shares	505	418
Other interest	26	59
Legal fees non deductible	33	224
Entertainment non deductible	3	10
Estimated income tax loss	(3,293)	(934)

4. Share capital

	2003 000	2002 000
Authorised and issued share capital		
Ordinary shares		
Balance at beginning of year	840	0
Shares authorised and issued during the year	0	840
Balance at end of year	840	840

Share capital	2003 $'000	2002 $'000
Ordinary shares		
Balance at beginning of year	8	0
Shares issued during the year	0	8
Balance at end of year – fully paid	8	8
Total share capital	8	8

As at 31 December 2003, there were 840,000 (2002: 840,000) Ordinary Shares issued and fully paid. All Ordinary Shares rank equally as to dividends and liquidation with one vote each attached to each fully paid Ordinary Share.

5. Cash and cash equivalents

	2003 $'000	2002 $'000
Cash and cash equivalents consists of the following:		
Cash	634	52
Demand deposits	766	4,488
	1,400	4,540

6. Convertible note receivable

During 2003, the Company invested in NeuronZ Limited by way of NZ$2 convertible notes. The convertible notes may convert into new Preference Shares in NeuronZ Limited or be repaid in cash on or before 31 December 2004. The convertible notes are unsecured with interest of 13.5 % p.a. payable in the event that the convertible notes are repaid.

If the convertible notes are converted, Endocrinz Limited has the right to convert each convertible note into 3 new Series B Preference Shares in NeuronZ Limited.

As a result of the purchase of the assets, liabilities and business as a going concern of NeuronZ Limited by Endocrinz Limited on 21 May 2004, (refer note 14) the convertible note has been effectively transferred and as a result no interest receivable has been accrued for as at 31 December 2003.

7. Fixed assets

	2003 $'000	2002 $'000
Fixed Assets consist of the following:		
Cost:		
Scientific equipment	250	130
Computer equipment	199	184
Fixtures and fittings	54	24
Office furniture	-	26
Leasehold improvements	12	8
	515	372
Less accumulated depreciation:		
Scientific equipment	74	12
Computer equipment	157	56
Fixtures and fittings	22	3
Office furniture	-	6
Leasehold improvements	6	1
	259	78
Fixed assets, net book value	256	294

Endocrinz Limited

Notes to the Financial Statements

For the Year Ended 31 December 2003

8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	2003 $'000	2002 $'000
Trade accounts payable	564	1,000
Employee related payables	20	48
Accruals	163	303
Payment on account from related party	639	-
	1,386	1,351

9. Long term debt

	2003 $'000	2002 $'000
Series A Preference Shares issued	1,667	1,667
Series B Preference Shares issued	4,649	4,649
Accrued Series A and B Preference Share dividend	923	418
	7,239	6,734

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 convertible 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 2003 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.

9. Long term debt (continued)

The 8% Preference Share dividends have been accrued for up to 31 December 2003 and are 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 (refer note 14).

10. Commitments and contingencies

Operating leases

There are no commitments or contingencies 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 2003.

Capital commitments

The Company is not committed to the purchase of any plant or equipment as at 31 December 2003 (2002: None).

11. Related party transactions

Pharmacia & Upjohn Company is a related party by virtue of their direct holding of 2,500,000 Series B Preference Shares. During the year, 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.

Endocrinz Founders Limited is an entity partly owned by Dr R L Congreve and Prof P D Gluckman. Dr R L Congreve is a director of Endocrinz Limited and Prof P D Gluckman is a direct shareholder in Endocrinz Limited and acts in a scientific consultancy role to Endocrinz Limited. Each hold shares in and are directors of Endocrinz Founders Limited. Endocrinz Founders Limited held 630,000 Ordinary Shares in Endocrinz Limited as at 31 December 2003.

NeuronZ Limited is a related party of Endocrinz Limited for the reporting period. During the year, Endocrinz Limited received scientific, management, accounting and administrative services from NeuronZ Limited on commercially agreed terms at a net value of NZ$1.0M. During the year, Endocrinz paid NeuronZ NZ$0.4M as a technology access fee for the purchase of certain technology and a further NZ$90,000 of technology related payments.

Endocrinz Limited also entered into a convertible note arrangement with NeuronZ Limited. As at 31 December 2003 NZ$0.4M was outstanding under the terms of the convertible note (refer note 6).

11. Related party transactions (continued)

During the year certain payments for goods and services were paid by Endocrinz Limited on behalf of NeuronZ Limited. As at 31 December 2003 NZ$110,000 is outstanding and included within amounts receivable from related parties.

On 21 May 2004, the Company purchased the assets, liabilities and business as a going concern of NeuronZ Limited under a sale and purchase agreement (refer note 14).

Certain other scientific consultants to the Company hold minority shareholdings of Ordinary Shares as at 31 December 2003 and received contractual amounts for their consulting services.

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

12. Going Concern

As stated in the Statement of Accounting Policies on page 9, the Company will need to raise additional financing through public or private equity financings, collaborations or other arrangements with corporate sources or other sources of financing to fund operations. The directors believe the Company will be successful in obtaining sufficient funding for its operations for the foreseeable future and for a period not less than twelve months from the date of signing these financial statements.

Subsequent to the balance date, the Company has secured additional funding through the award of several grants supporting its future business and operations and further contract research for a period of time. Furthermore, the Preference Shares held as at 31 December 2003 have been converted into Ordinary Shares (refer note 14).

Further support from existing shareholders has also been committed.

13. 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 2003, the share option plans had not been formalised.

Notes to the Financial Statements

For the Year Ended 31 December 2003

14. Events after balance date

On 2 April 2004, all existing Series A and Series B Preference Shares in Endocrinz Limited were converted into Ordinary Shares credited as fully paid up and ranking equally with the existing Ordinary Shares, on a one for one basis.

Additionally, in consideration of the Preference Shareholders forgoing their preferential rights, a further 912,218 Ordinary Shares were issued as fully paid up and ranking equally with the existing Ordinary Shares, to the former Preference Shareholders.

Also on 2 April 2004, Endocrinz Limited cancelled the Company's existing Subscription Agreement and Shareholders Agreement and adopted a new Constitution.

On 21 May 2004, the Company acquired the assets, liabilities and business as a going concern of NeuronZ Limited under a sale and purchase agreement. The consideration for acquiring the assets, liabilities and business as a going concern of NeuronZ Limited being the issue by Endocrinz Limited to NeuronZ Limited of 16,276,939 new Ordinary Shares credited as fully paid up and ranking equally with the existing Ordinary Shares of Endocrinz Limited.

As a result of the merger of NeuronZ Limited with Endocrinz Limited the convertible note receivable (refer note 6) has effectively been transferred.

Endocrinz Limited

Directory

As at 31 December 2003

Registered office

Level 3
2-6 Park Avenue
Grafton
Auckland

Solicitors

Harmos Horton Lusk
Level 37
Vero Centre
PO Box 28
Shortland Street
Auckland

&

Simpson Grierson
Simpson Grierson Building
92 – 96 Albert St
Private Bag 92518
Wellesley St
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Auditors

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland.