



Pharmaxis Ltd

ABN 75 082 811 630

ASX Preliminary Final Report – 30 June 2011

Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with the Statutory Annual Report dated 12th August 2010 and any public announcements made by during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Year ended 30th June 2011

(Previous corresponding period: Year ended 30th June 2010)

Results for announcement to the market

			<u>A\$'000</u>
Revenue from ordinary activities	Down	17%	to 4,458
Profit / (Loss) from ordinary activities after tax	Down	1%	to (45,758)
Net profit / (loss) for the year attributable to members	Down	1%	to (45,758)

Dividends

It is not proposed to pay a dividend

Other Appendix 4E information

	<u>30 June</u> <u>2011</u>	<u>30 June</u> <u>2010</u>
Net tangible assets per ordinary share	\$ 0.24	\$ 0.43

Commentary on results for the period (Appendix 4E item 14)

Overview

Bronchitol

The Group has developed Bronchitol for the management of chronic obstructive lung diseases including cystic fibrosis, bronchiectasis and chronic bronchitis. Bronchitol is a proprietary formulation of mannitol administered as a dry powder in a convenient hand-held inhaler. It is designed to hydrate the lungs, restore normal lung clearance mechanisms, and help patient's clear mucus more effectively.

Significant events during the year included:

- The Company released results for patients receiving Bronchitol in the open label phase of its second clinical trial in cystic fibrosis. Overall, patients treated with Bronchitol for the first six months of the trial experienced an 8.2% improvement in lung function (FEV1) and this was maintained out to 12 months of treatment with Bronchitol. Furthermore, patients who received placebo for the first six months of the trial, when switched to Bronchitol, experienced a 6.3% improvement in lung function at the end of 12 months.
- The Company announced significant results of pooled data from its two international six month Phase III trials of Bronchitol in people with cystic fibrosis. Over the 26 weeks of the two studies, patients treated with Bronchitol had an average 7.3% improvement in lung function (FEV1) compared to baseline and a highly significant improvement compared to patients in the control group. In the sub group of patients who were also on rhDNase, patients taking Bronchitol showed a 5.3% improvement from baseline ($p < 0.001$), that was again superior to the control group ($p = 0.020$). In the sub group of patients who were not on rhDNase, patients taking Bronchitol showed a 9.44% improvement from baseline ($p < 0.001$), that was also superior to the control group ($p = 0.009$). In addition, treatment with Bronchitol reduced overall pulmonary exacerbation incidence by 29% ($p = 0.039$) relative to control. The overall rate per annum reduction in exacerbations for patients on Bronchitol versus those on control was 25% (NS) and the number of patients experiencing an exacerbation was 29% lower for those taking Bronchitol (NS). This result was achieved in a well treated patient population who overall had a very low rate of exacerbations in the study.
- Entry into a strategic marketing and sales service agreement with the highly respected Quintiles organisation to support the launch and commercialisation of Bronchitol in Western Europe.
- The Australian Therapeutic Goods Administration approved Bronchitol for marketing in Australia for the treatment of cystic fibrosis in both adult and paediatric patients aged over six years as either an add-on therapy to dornase alfa or in patients intolerant of, or inadequately responsive to, dornase alfa.

As noted above, the Company has submitted an application for the listing of Bronchitol on the Australian Pharmaceutical Benefits Scheme. The initial submission to the Pharmaceutical Benefits Advisory Committee was not successful and the Company has now submitted a revised application.

- The European Committee for Medicinal Products for Human Use (CHMP) adopted a negative opinion in relation to the Company's marketing application for Bronchitol for cystic fibrosis. The major concern of the CHMP that led to the negative opinion was their view that the effectiveness and benefit of Bronchitol had not been established. In particular, that it was not clear to the CHMP that the improvement in lung function would be sufficient to improve the patient's condition and that the extent of the improvement was difficult for them to ascertain since the results of the studies were, in their view, inconsistent across different age groups.

Subsequent to year end, following a review of the CHMP decision, a dialogue with the European Medicines Agency (EMA) and discussion with external advisors, the Company requested a re-examination of the European Bronchitol marketing application for cystic fibrosis. The Company currently expects the re-examination to be completed by the end of November 2011.

Aridol

Aridol is the Group's first approved product. It is a simple-to-use airways inflammation test administered as a dry powder in a hand-held inhaler. Doctors can use the results of this test to identify airway hyper-responsiveness – a hallmark of asthma.

The key milestone achieved during 2011 was the approval by the US Food and Drug Administration of the Aridol Bronchial Challenge Test Kit for marketing. Sales commenced in late February 2011 and the Group is in the process of promoting and marketing the product.

Other milestones

The Company announced it had enrolled the first subjects into a Phase II clinical trial evaluating the new asthma drug, ASM8, in patients with allergic asthma. ASM8 represents one of the next generation drugs designed to tackle the airway inflammation that underpins asthma.

Results of Operations

Sales and Gross Profit

Year ended 30 June	2011	2010
<i>In thousands</i>	A\$	A\$
Australia	253	268
Europe	398	398
Korea	205	162
United States	54	-
	910	828

Gross profit was approximately 62 percent and 63 percent of sales in 2011 and 2010 respectively,

Other revenue – interest. Interest income decreased from A\$3.9 million in 2010 to A\$3.1 million in 2011.

Other income. The main component of other income in 2011 related to amounts paid to the Company under a contract with a pharmaceutical company for services performed by Pharmaxis sales representatives promoting products of the pharmaceutical company to respiratory specialists. This amounted to A\$0.23 million (2010: A\$0.28 million). In 2011 the Company's Canadian subsidiary accrued R&D tax credits of A\$0.17 million (2010: A\$0.13 million). In 2010 Pharmaxis also received an Export Market Development Grant from the Australian government of A\$0.14 million.

Research and Development Expenses. Research and development expenses were A\$34.6 million in 2011 compared to A\$35.1 million in 2010.

1. The drug discovery and development group accounted for approximately 13 percent of our total research and development expenditure in the current year and increased by approximately 5 percent or A\$0.2 million compared to 2010. This group is focused on respiratory drug discovery.
2. The clinical group accounted for approximately 49 percent of our total research and development expenditure in 2011 and decreased by approximately 19 percent or A\$4 million compared to 2010. The clinical group designs and monitors the clinical trials run by us. The majority of the expenditures of this group are directed at hospitals and other services related to the conduct and analysis of clinical trials. This decrease in expenditure reflects the number and size of Phase III clinical trials recruiting and dosing subjects which was one trial in Bronchiectasis during 2011 compared to the bronchiectasis trial and a cystic fibrosis trial in 2010.
3. The manufacturing facility at Frenchs Forest is predominantly focused on producing material for clinical trials, producing and analyzing material in support of regulatory filings and developing enhanced manufacturing products and processes. Manufacturing expenses for the current year have therefore mainly been classified as research and development expenditure. Costs associated with the Aridol product sold are classified as cost of sales. Manufacturing accounted for approximately 33 percent of total research and development expenditure in 2011 and increased by approximately 29 percent or A\$2.3 million compared to 2010. The drivers for this increase include depreciation on the new manufacturing equipment commencing from 1 July 2010, licencing fees associated with the new manufacturing facility, supply of clinical trial material for the Phase II trial in Bronchiectasis, and quality costs associated with validating the manufacturing process and in support of regulatory applications.
4. Amortisation of patent costs are a component of research and development. Patents were the predominant asset arising from the acquisition of Topigen Pharmaceuticals, Inc and Technology Innovation Ltd in the first half of 2010. Patent amortisation accounted for approximately 5 percent of total research and development expenditure in 2011 and increased by approximately A\$1.2 million compared to 2010.

Commercial Expenses. Commercial expenses are focused on developing and delivering the commercial strategy and capability to sell Aridol and Bronchitol globally. Commercial expenses were A\$9.2 million in 2011 compared to A\$5.7 million in 2010. The increase in

commercial expenses is predominantly attributable to the scale-up of commercial infrastructure and resources to support the launch of Aridol in the US and Bronchitol in Australia and Europe. The higher costs were marginally offset by a stronger AUD exchange rate in the current year reducing the Australian dollar value of the US and UK commercial operations.

Administration Expenses. Administration expenses include accounting, administration, recruitment and public company costs and were A\$5.2 million in 2011 and A\$9.7 million in 2010. The decrease in the current year is primarily attributable to one-off costs in 2010 associated with the acquisition and restructuring of Topigen Pharmaceuticals Inc.

Finance Costs. Finance costs represent the finance charge associated with the capitalised finance lease of the facility at Frenchs Forest, Sydney.

Income Tax Expense. Income tax expense was A\$0.05 million in 2011 and A\$0.05 million in 2010. The expense relates to income generated by subsidiary companies which are reimbursed for certain of their expenditures on a cost plus basis upon which tax is payable.

Loss. The loss decreased from A\$46.3 million in 2010 to A\$45.8 million in 2011 due to the movement in operating expenses discussed above.

Basic and diluted net loss per share. Basic and diluted net loss per share decreased from A\$0.210 in 2010 to A\$0.202 in 2011.

Status of audit (Appendix 4E items 15 to 17)

This preliminary final report is based on accounts which have been audited. The audit report, which was unqualified, will be made available when the Company lodges its Statutory Annual Report.

Pharmaxis Ltd
Annual financial report - 30 June 2011

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This financial report covers Pharmaxis Ltd as the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries. The financial report is presented in the Australian currency.

Pharmaxis Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Pharmaxis Ltd
20 Rodborough Road
Frenchs Forest, NSW Australia 2086

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report which is not part of this financial report.

The financial report was authorised for issue by the directors on 11th August 2011. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. Press releases, financial reports and other information are available at our website: www.pharmaxis.com.au.

Pharmaxis Ltd
Consolidated income statement
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Revenue from continuing operations			
Revenue from sale of goods	2	910	828
Cost of sales		(342)	(307)
Gross profit		568	521
Other revenue	2	3,083	3,935
Other income	3	465	616
Other expenses from ordinary activities	4		
Research & development expenses		(34,632)	(35,140)
Commercial expenses		(9,163)	(5,657)
Administration expenses		(5,171)	(9,715)
Finance expenses		(859)	(854)
Loss before income tax		(45,709)	(46,294)
Income tax expense	5	(49)	(51)
Loss for the year		(45,758)	(46,345)
Earnings per share:			
		Cents	Cents
Basic earnings / (loss) per share	31	(20.2)	(21.0)
Diluted earnings / (loss) per share	31	(20.2)	(21.0)

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

Pharmaxis Ltd

Consolidated statement of comprehensive income

For the year ended 30 June 2011

	2011	2010
	\$'000	\$'000
Loss for the financial year	(45,758)	(46,345)
Other comprehensive income		
Exchange differences on translation of foreign operations	<u>(466)</u>	<u>83</u>
Other comprehensive income for the year, net of tax	(466)	83
Total comprehensive income for the year	(46,224)	(46,262)
Total comprehensive income for the year is attributable to:		
Owners of Pharmaxis Ltd	(46,224)	(46,262)

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

Pharmaxis Ltd
Consolidated balance sheet

As at 30 June 2011

	Notes	2011 \$'000	2010 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	44,343	85,787
Trade and other receivables	7	796	2,711
Inventories	8	864	424
Total current assets		46,003	88,922
Non-current assets			
Receivables	9	2,045	1,606
Other financial assets	10	-	-
Property, plant and equipment	11	30,570	32,537
Intangible assets	12	15,954	17,702
Total non-current assets		48,569	51,845
Total assets		94,572	140,767
LIABILITIES			
Current liabilities			
Trade and other payables	13	7,055	8,511
Borrowings	14	443	371
Other liabilities	15	239	239
Current tax liabilities		6	48
Total current liabilities		7,743	9,169
Non-current liabilities			
Borrowings	16	12,716	13,158
Other liabilities	17	2,810	3,069
Provisions	18	473	355
Total non-current liabilities		15,999	16,582
Total liabilities		23,742	25,751
Net assets		70,830	115,016
EQUITY			
Contributed equity	19	267,610	267,050
Reserves	20(a)	13,492	12,480
Accumulated losses	20(b)	(210,272)	(164,514)
Total equity		70,830	115,016

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated statement of changes in equity

For the year ended 30 June 2011

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 30 June 2009		245,958	9,902	(118,169)	137,691
Loss for the year		-	-	(46,345)	(46,345)
Other comprehensive income		-	83	-	83
Total comprehensive income for the year		-	83	(46,345)	(46,262)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	21,092	-	-	21,092
Employee share options	20(a)	-	2,495	-	2,495
		21,092	2,495	-	23,587
Balance at 30 June 2010		267,050	12,480	(164,514)	115,016
Loss for the year		-	-	(45,758)	(45,758)
Other comprehensive income		-	(466)	-	(466)
Total comprehensive income for the year		-	(466)	(45,758)	(46,224)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	560	-	-	560
Employee share options	20(a)	-	1,478	-	1,478
		560	1,478	-	2,038
Balance at 30 June 2011		267,610	13,492	(210,272)	70,830

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

Pharmaxis Ltd
Consolidated statement of cash flows
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,294	1,314
Payments to suppliers and employees (inclusive of goods and services tax)		(42,572)	(45,943)
		(41,278)	(44,629)
Grant receipts from government		966	1,069
Interest received		3,083	3,935
Income tax paid		(137)	(58)
Net cash outflow from operating activities	30	(37,366)	(39,683)
Cash flows from investing activities			
Payment for acquisition of subsidiaries, net of cash acquired (net receipt)	26	(1,496)	4,104
Payments for property, plant and equipment		(1,236)	(2,894)
Proceeds from disposal of plant and equipment		27	16
Payments for intangible assets		(178)	(84)
Net cash (outflow)/ inflow from investing activities		(2,883)	1,142
Cash flows from financing activities			
Net proceeds from issues of shares		471	428
Finance lease payments		(1,229)	(1,200)
Net cash outflow from financing activities		(758)	(772)
Net decrease in cash and cash equivalents		(41,007)	(39,313)
Cash and cash equivalents at the beginning of the financial year		85,787	124,993
Effects of exchange rate changes on cash and cash equivalents		(437)	107
Cash and cash equivalents at the end of the financial year	6	44,343	85,787

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

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1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs

The consolidated financial statements of Pharmaxis Ltd also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Management believe that any estimation uncertainty would not have a significant risk of causing a material adjustment to the carrying values of assets and liabilities and no judgements were made that could have significant effects on the amounts recognised in the financial report.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pharmaxis Ltd ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Pharmaxis Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Pharmaxis Ltd.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Pharmaxis Ltd's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

1. Summary of significant accounting policies (continued)

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Sales revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recorded when goods have been dispatched and the risk and rewards have passed to the customer.

(ii) Service income

Service income relates to revenue received from other pharmaceutical companies for use of the Groups sales force to promote their products. Service income is recognised in the period the service is performed.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. When the company receives income in advance of incurring the relevant expenditure, it is treated as deferred income as the company recognises the income only when the relevant expenditure has been incurred.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1. Summary of significant accounting policies (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Group has unused tax losses of \$231 million at 30 June 2011 as described in note 5.

(h) Leases

Leases of property where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 24). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the principal repayment and the finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property acquired under the finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Any lease incentive received is recognised in the income statement on a straight-line basis over the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1. Summary of significant accounting policies (continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For purposes of the statement of cash flows, cash includes cash on hand, deposits at call and bank accepted commercial bills, which are subject to an insignificant risk of changes in value.

Bank accepted commercial bills are short-term deposits held with banks with maturities of three months or less, which are acquired at a discount to their face value. The bills are carried at cost plus a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest received.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement between 30 – 60 days from date of invoice.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against administration expenses in the income statement.

(m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Group 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.

Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment	5 – 15 years
Computer equipment	4 years
Leased building and improvements	15 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 (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

1. Summary of significant accounting policies (continued)

(o) Intangible assets

(i) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the patents over their estimated useful lives, which vary from 5 to 20 years.

(ii) Trademarks

Trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the trademarks over their estimated useful lives, which are assessed as 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

(iv) Software

Software licenses are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over their estimated useful lives, which vary from 3 to 5 years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition and receipt of a valid invoice.

(q) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised as a provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Contributions to defined contribution funds are recognised as an expense as they become payable.

(iv) Equity-based payments

Equity-based compensation benefits are provided to employees via the Pharmaxis Employee Equity Plans. Information relating to these schemes is set out in note 33. The fair value of equity granted under the various plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options / performance rights.

For options the fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

For performance rights the fair value at grant date is taken to be the closing share price on the date of grant.

1. Summary of significant accounting policies (continued)

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, performance targets). Non-market vesting conditions are included in assumptions about the number of options / performance rights that are expected to become exercisable. At each balance sheet date, the Company revises its estimate of the number of options / performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(v) *Bonus plans*

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(r) **Other liabilities**

Other liabilities comprises a deferred lease incentive which relates to a cash incentive received pursuant to the lease agreement. The deferred incentive is amortised to the income statement over the lease term of 15 years.

(s) **Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options (net of recognised tax benefits) are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) **Earnings per share**

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing net result after income tax attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. At present, the potential ordinary shares are anti-dilutive, and have therefore not been included in the dilutive earnings per share calculations.

(u) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(v) **Rounding of amounts**

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

1. Summary of significant accounting policies (continued)

(w) Parent entity financial information

The financial information for the parent entity, Pharmaxis Ltd, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. It is not expected to have any effect on the Group's or the parent entity's related party disclosures.

AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Pharmaxis Ltd is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in other Entities and revised IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013)

In May 2011, the IASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The AASB is expected to issue equivalent Australian standards shortly.

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC-12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Revised IAS 1 Presentation of Financial Statements (effective 1 July 2012)

In June 2011, the IASB made an amendment to IAS 1 Presentation of Financial Statements. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

2. Revenue

	2011	2010
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	910	828
<i>Other revenue</i>		
Interest	3,083	3,935

3. Other income

Government grants	173	274
Service income	292	342
	465	616

4. Expenses

	2011	2010
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
Depreciation (note 11)		
Plant and equipment	1,356	627
Computer equipment	281	249
Leased building and improvements	1,491	1,508
Total depreciation	3,128	2,384
Amortisation (note 12)		
Patents	1,753	514
Trademarks	6	6
Software	139	117
Total amortisation	1,898	637
<i>Impairment losses – financial assets</i>		
Trade receivables	(12)	(27)
Net gain on disposal of plant and equipment	(26)	(4)
Net loss on write down of plant and equipment	-	291
Rental expense relating to operating leases	1,436	1,324
Net foreign exchange (gains) / losses	(10)	180
Employee benefits expense		
Defined contribution superannuation	1,018	921
Other employee benefits expenses	18,246	16,478

5. Income tax expense

	2011	2010
	\$'000	\$'000
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	(45,709)	(46,294)
Tax at the Australian tax rate 30% (2010:30%)	(13,713)	(13,888)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	470	748
Government research tax incentives	(811)	(2,078)
Sundry items	8	8
	(14,046)	(15,210)
Over provision in prior years	155	475
Difference in overseas tax rates	(3)	(13)
Total	(13,894)	(14,748)
Deferred tax benefits not recognised	13,943	14,799
Income tax expense	49	51

This represents current income tax expense.

(b) Deferred tax balances

Deferred tax asset comprises temporary differences attributable to the following:

Interest and Grant receivables	(122)	(387)
Lease balances	367	200
Deferred lease incentive	915	992
Employee benefits	539	605
Share capital raising costs	514	843
Other	129	(26)
	2,342	2,227
Deferred tax assets attributable to temporary differences which are not recognised	(2,342)	(2,227)
	-	-

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised

	231,444	185,609
Potential tax benefit @ 30%	69,433	55,683

All unused tax losses were incurred by the parent entity.

6. Current assets – Cash and cash equivalents

	2011	2010
	\$'000	\$'000
Cash at bank and in hand	847	3,791
Deposits at call	3,050	1,049
Bank accepted commercial bills	40,446	80,947
	44,343	85,787

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 32. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents above.

7. Current assets – Trade and other receivables

	2011	2010
	\$'000	\$'000
Trade receivables	399	374
Provision for impairment of receivables (note (b))	(111)	(123)
	288	251
Government research grants receivable	199	992
Prepayments (note (c))	113	331
Other receivables (note (d))	-	892
Tax related receivables	196	245
	796	2,711

(a) Past due but not impaired

As of 30 June 2011, trade receivables of \$83,885 (2010: \$67,531) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2011	2010
	\$'000	\$'000
Up to 1 month	33	28
1 to 2 months	50	39
Over 2 months	1	1
	84	68

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

(b) Impaired trade receivables

As of 30 June 2011, trade receivables of \$111,408 (2010: \$122,829) were impaired. These relate to one distributor which is having difficulty repaying due to limited financial resources given current economic conditions.

(c) Prepayments

Prepayments relate to insurance premiums and income tax instalments paid in advance.

7. Current assets – Trade and other receivables (continued)

(d) Other receivables

Other receivables in 2010 primarily represented cash held at bank to cover bank guarantee facilities related to finance lease commitments which were due to expire within the next 12 months.

(e) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 32.

(f) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 32 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

8. Current assets – Inventories

	2011	2010
	\$'000	\$'000
Raw materials - at cost	288	174
Work-in-progress - at cost	272	189
Finished goods - at cost	304	61
	864	424

9. Non-current assets – Receivables

	2011	2010
	\$'000	\$'000
Other receivables (note (a))	2,045	1,589
Prepayments	-	17
	2,045	1,606

(a) Other receivables

Other receivables primarily represents cash held at bank to cover bank guarantee facilities related to finance and operating lease commitments, corporate credit card and local payment clearing house facilities.

(b) Fair value

The carrying amount of the non-current receivables approximates their fair value.

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 32.

10. Non-current assets – Other financial assets

	2011	2010
	\$'000	\$'000
Shares in subsidiaries (note 27)	-	-

11. Non-current assets – Property, plant and equipment

	Plant and equipment	Computer equipment	Leased building and improvements	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2009				
Cost	13,276	1,089	22,895	37,260
Accumulated depreciation and impairment	(3,431)	(546)	(585)	(4,562)
Net book amount	9,845	543	22,310	32,698
Year ended 30 June 2010				
Opening net book amount	9,845	543	22,310	32,698
Exchange differences	(3)	(5)	-	(8)
Additions	1,867	330	328	2,525
Disposals	(96)	(1)	(197)	(294)
Depreciation charge	(627)	(249)	(1,508)	(2,384)
Closing net book amount	10,986	618	20,933	32,537
At 30 June 2010				
Cost	14,846	1,300	23,022	39,168
Accumulated depreciation and impairment	(3,860)	(682)	(2,089)	(6,631)
Net book amount	10,986	618	20,933	32,537
Year ended 30 June 2011				
Opening net book amount	10,986	618	20,933	32,537
Exchange differences	(17)	(10)	(1)	(28)
Additions	964	203	23	1,190
Disposals	-	(1)	-	(1)
Depreciation charge	(1,356)	(281)	(1,491)	(3,128)
Closing net book amount	10,577	529	19,464	30,570
At 30 June 2011				
Cost	15,782	1,404	23,044	40,230
Accumulated depreciation and impairment	(5,205)	(875)	(3,580)	(9,660)
Net book amount	10,577	529	19,464	30,570

(a) Leased assets

Leased building and improvements includes the following amounts where the Group is a lessee under a finance lease:

	2011	2010
	\$'000	\$'000
Cost	13,916	13,916
Accumulated amortisation	(1,982)	(1,054)
Net book amount	11,934	12,862

12. Non-current assets – Intangible assets

	Patents \$'000	Trademarks \$'000	Software \$'000	Total \$'000
At 1 July 2009				
Cost	1,667	113	512	2,292
Accumulated amortisation and impairment	(859)	(11)	(229)	(1,099)
Net book amount	808	102	283	1,193
Year ended 30 June 2010				
Opening net book amount	808	102	283	1,193
Additions	17,032	-	122	17,154
Disposals	-	(1)	(7)	(8)
Amortisation charge	(514)	(6)	(117)	(637)
Closing net book amount	17,326	95	281	17,702
At 30 June 2010				
Cost	18,699	112	604	19,415
Accumulated amortisation and impairment	(1,373)	(17)	(323)	(1,713)
Net book amount	17,326	95	281	17,702
Year ended 30 June 2011				
Opening net book amount	17,326	95	281	17,702
Additions	81	-	69	150
Disposals	-	-	-	-
Amortisation charge	(1,753)	(6)	(139)	(1,898)
Closing net book amount	15,654	89	211	15,954
At 30 June 2011				
Cost	18,780	112	673	19,565
Accumulated amortisation and impairment	(3,126)	(23)	(462)	(3,611)
Net book amount	15,654	89	211	15,954

13. Current liabilities – Trade and other payables

	2011	2010
	\$'000	\$'000
Trade payables	1,235	1,086
Other payables (note (a))	5,820	5,684
Purchase consideration payable (note (b))	-	1,741
	7,055	8,511

(a) Other payables

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement.

(b) Purchase consideration payable

Purchase consideration payable in 2010 related to deferred consideration owing on the acquisition of Technology Innovation Limited. This obligation was settled in May 2011. Refer to note 26 for additional information.

13. Current liabilities – Trade and other payables (continued)

(c) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 32.

14. Current liabilities – Borrowings

	2011	2010
	\$'000	\$'000
Secured		
Lease liabilities (note 24)	443	371

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 16.

(b) Risk exposure

Information about the Group's exposure to risks arising from current and non-current borrowings is provided in note 32.

15. Current liabilities – Other liabilities

	2011	2010
	\$'000	\$'000
Deferred lease incentive	239	239

Information about the deferred lease incentive is provided in note 17.

16. Non-current liabilities – Borrowings

	2011	2010
	\$'000	\$'000
Secured		
Lease liabilities (note 24)	12,716	13,158

Secured liabilities and assets pledged as security

Lease liabilities are effectively secured, as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

17. Non-current liabilities – Other liabilities

	2011	2010
	\$'000	\$'000
Deferred lease incentive	2,810	3,069

The deferred lease incentive relates to a cash incentive received pursuant to a lease agreement. The deferred incentive is amortised over the 15 year lease term on a straight-line basis.

18. Non-current liabilities – Provisions

	2011	2010
	\$'000	\$'000
Employee benefits - long service leave	473	355

19. Contributed equity

	Notes	Consolidated and Parent entity		Consolidated and Parent entity	
		2011 Shares	2010 Shares	2011 \$'000	2010 \$'000
(a) Share capital					
Ordinary shares	(b),(c)				
Fully paid		228,290,309	225,410,234	267,610	267,050

Movements in ordinary share capital:

Details	Number of shares	Issue price	\$'000
Opening balance as at 1 July 2009	217,659,109		245,958
Exercise of employee options	1,521,125	\$ 0.2538 ⁽¹⁾	386
Issue of restricted shares	30,000	\$ 0.0000	-
Issued on acquisition of subsidiary	6,200,000	\$ 2.5200	15,624
Transaction costs on share issues			42
Shares yet to be issued on acquisition of subsidiary ^(b)			5,040
Closing Balance at 30 June 2010	225,410,234		267,050
Exercise of employee options	836,875	\$ 0.5628 ⁽¹⁾	471
Employee Share Plan	43,200	\$ 2.0690	89
Issued subsequent to the acquisition of a subsidiary ^(b)	2,000,000		-
Closing Balance at 30 June 2011	228,290,309		267,610

(1) The issue price on exercise of employee options represents a weighted average issue price for the respective financial year.

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Shares yet to be issued

Shares yet to be issued in the year ended 30 June 2010 related to contingent equity consideration on the acquisition of Topigen Pharmaceuticals Inc. These shares were issued on 19th January 2011. Refer to note 26 for additional information.

(c) Equity plans

Information relating to the Pharmaxis Employee Equity Plans, including details of equity instruments issued, exercised and lapsed during the financial year and outstanding at the end of the financial year, is set out in note 33.

(d) Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The Group predominately uses equity to finance its projects. In order to maintain or adjust the capital structure, the Group may issue new shares.

20. Reserves and accumulated losses

	2011	2010
	\$'000	\$'000
(a) Reserves		
Share-based payments reserve	13,848	12,370
Foreign currency translation reserve	(356)	110
	13,492	12,480
<i>Share-based payments reserve</i>		
Balance 1 July	12,370	9,875
Equity expense	1,478	2,495
Balance 30 June	13,848	12,370
<i>Foreign currency translation reserve</i>		
Balance 1 July	110	27
Currency translation differences arising during the year	(466)	83
Balance 30 June	(356)	110

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2011	2010
	\$'000	\$'000
Balance 1 July	(164,514)	(118,169)
Net loss for the year	(45,758)	(46,345)
Balance 30 June	(210,272)	(164,514)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of equity instruments granted.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d).

21. Key management personnel disclosures

(a) Key management personnel compensation

	2011	2010
	\$	\$
Short-term employee benefits	2,343,884	2,646,103
Post-employment benefits	187,815	181,680
Long-term benefits	52,932	47,945
Share-based payments	1,043,251	1,593,402
	3,627,882	4,469,130

Detailed remuneration disclosures are provided in the remuneration report under section 2.2.

21. Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

(i) Options and performance rights provided as remuneration and shares issued on exercise of such instruments

Details of equity instruments provided as remuneration and shares issued on the exercise of such instruments, together with related terms and conditions, can be found in the remuneration report section of the Directors' Report.

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

2011	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Name						
Directors of Pharmaxis Ltd						
DM Hanley	1,120,000	-	-	-	1,120,000	1,120,000
AD Robertson	1,960,000	-	-	-	1,960,000	1,710,000
MJ McComas	240,000	-	(100,000)	-	140,000	140,000
J Villiger	200,000	-	-	-	200,000	200,000
W Delaat	200,000	-	-	-	200,000	150,000
R van den Broek	-	-	-	-	-	-
Other key management personnel of the Group						
B Charlton	1,160,000	-	(100,000)	-	1,060,000	947,500
JF Crapper	930,000	-	-	-	930,000	817,500
HG Fox	400,000	-	(62,500)	-	337,500	168,750
IA McDonald	870,000	-	-	-	870,000	757,500
DM McGarvey	1,710,000	-	-	-	1,710,000	1,597,500
GJ Phillips	1,195,000	-	(190,000)	-	1,005,000	892,500
2010						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
DM Hanley	1,120,000	-	-	-	1,120,000	1,120,000
AD Robertson	2,880,000	200,000	(1,120,000)	-	1,960,000	1,585,000
MJ McComas	240,000	-	-	-	240,000	240,000
PC Farrell ⁽¹⁾	220,000	-	-	(220,000)	-	-
J Villiger	200,000	-	-	-	200,000	200,000
W Delaat	200,000	-	-	-	200,000	100,000
R van den Broek	-	-	-	-	-	-
Other key management personnel of the Group						
B Charlton	1,210,000	-	(50,000)	-	1,160,000	910,000
JF Crapper	1,110,000	-	(180,000)	-	930,000	680,000
HG Fox	400,000	-	-	-	400,000	100,000
IA McDonald	870,000	-	-	-	870,000	620,000
DM McGarvey	1,710,000	-	-	-	1,710,000	1,460,000
GJ Phillips	1,255,000	-	(60,000)	-	1,195,000	945,000

21. Key management personnel disclosures (continued)

(1) Peter Farrell resigned as a director effective 21 October 2009.

(iii) Performance Rights holdings

The number of performance rights over ordinary shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

2011	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Name						
Directors of Pharmaxis Ltd						
DM Hanley	-	-	-	-	-	-
AD Robertson	-	50,000	-	-	50,000	-
MJ McComas	-	-	-	-	-	-
J Villiger	-	-	-	-	-	-
W Delaat	-	-	-	-	-	-
R van den Broek	-	-	-	-	-	-
Other key management personnel of the Group						
B Charlton	-	40,000	-	-	40,000	-
JF Crapper	-	40,000	-	-	40,000	-
HG Fox	-	40,000	-	-	40,000	-
IA McDonald	-	40,000	-	-	40,000	-
DM McGarvey	-	40,000	-	-	40,000	-
GJ Phillips	-	40,000	-	-	40,000	-

2010

There were no performance rights issued in the year ended 30 June 2010.

(iv) Share holdings

The numbers of shares in the company held during the financial year by each director of Pharmaxis Ltd and other key management personnel of the Group, including their close family members, are set out below. (Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity).

2011	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of Pharmaxis Ltd				
Ordinary shares				
DM Hanley	798,295	-	-	798,295
AD Robertson	1,145,000	-	(500,000)	645,000
MJ McComas	139,999	100,000	-	239,999
J Villiger	-	-	250,000	250,000
W Delaat	25,000	-	-	25,000
R van den Broek ⁽¹⁾	75,000	-	-	75,000

21. Key management personnel disclosures (continued)

2011	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Other key management personnel of the Group				
Ordinary shares				
B Charlton	46	100,000	(100,000)	46
JF Crapper	2,000	-	-	2,000
HG Fox	-	62,500	(62,500)	-
IA McDonald	-	-	-	-
DM McGarvey	7,127	-	5,000	12,127
GJ Phillips	5,000	190,000	(105,000)	90,000

(1) Richard van den Broek is associated with HSMR Advisors (QP) L.P, HSMR Advisors (QP) L.P, held 830,000 shares as at 30 June 2011 (2010: 830,000).

2010	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of Pharmaxis Ltd				
Ordinary shares				
DM Hanley	798,295	-	-	798,295
AD Robertson	100,000	1,120,000	(75,000)	1,145,000
MJ McComas	139,999	-	-	139,999
P Farrell ⁽¹⁾	101,645	-	(101,645)	-
J Villiger	-	-	-	-
W Delaat	25,000	-	-	25,000
R van den Broek	45,000	-	30,000	75,000

Other key management personnel of the Group

Ordinary shares				
B Charlton	46	50,000	(50,000)	46
JF Crapper	2,000	180,000	(180,000)	2,000
HG Fox	-	-	-	-
IA McDonald	-	-	-	-
DM McGarvey	47,127	-	(40,000)	7,127
GJ Phillips	6,664	60,000	(61,664)	5,000

(1) Peter Farrell resigned as a director effective 21 October 2009.

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2011.

22. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2011	2010
(a) Audit services	\$	\$
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	229,170	225,877
PricewaterhouseCoopers UK firm		
Audit of the financial report of Pharmaxis Pharmaceuticals Limited	15,230	-
Non-PricewaterhouseCoopers audit firm for the audit of the financial report of Pharmaxis Pharmaceuticals Limited	-	16,556
Total remuneration for audit services	<u>244,400</u>	<u>242,433</u>
(b) Other assurance services		
PricewaterhouseCoopers Australian firm		
Control testing	9,750	9,750
Assistance in relation to SEC compliance letter	-	9,500
EMDG revenue forecast review	-	3,496
	<u>9,750</u>	<u>22,746</u>
PricewaterhouseCoopers China firm		
Accounting review services	14,841	18,710
Total remuneration for other services	<u>24,591</u>	<u>41,456</u>
(c) Tax services		
PricewaterhouseCoopers Australian firm		
International tax consulting and tax advice	23,967	19,820
Tax compliance services	17,000	21,400
	<u>40,967</u>	<u>41,220</u>
Other PricewaterhouseCoopers firms		
Tax compliance services	63,458	10,894
Total remuneration for tax services	<u>104,425</u>	<u>52,114</u>

23. Contingent liabilities

The Group had contingent liabilities at 30 June 2011 in respect of:

Guarantees

The Group's bankers have issued bank guarantees of \$1,069,203 in relation to rental bond deposits for which no provision has been made in the accounts. The rental bond deposits cover the leased building which has been accounted for as a finance lease and other leased premises accounted for as operating leases. These bank guarantees are secured by security deposits held at the bank.

The Group's bankers have provided a corporate credit card facility which is secured by a deposit held at the bank totalling \$77,920.

The Group's bankers have issued a bank guarantee of GBP180,000 in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis Pharmaceuticals Limited. This bank guarantee is secured by a deposit held at the bank.

23. Contingent liabilities (continued)

The Group's bankers have issued a bank guarantee of USD175,000 in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis, Inc. This bank guarantee is secured by a deposit held at the bank.

24. Commitments

(a) Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2011	2010
	\$'000	\$'000
<i>Plant and equipment</i>		
Payable: Within one year	-	156

(b) Lease Commitments

(i) Non-cancellable operating leases

The Group leases various offices and items of plant and equipment under non-cancellable operating leases expiring within one to fifteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	2011	2010
	\$'000	\$'000
<i>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</i>		
Within one year	1,051	1,006
Later than one year but not later than five years	4,060	3,008
Later than 5 years	3,914	4,531
	9,025	8,545

(ii) Finance leases

The Group has entered into an agreement concerning the lease of a custom designed manufacturing, warehousing, research and office facility of approximately 7,200 square metres, constructed to our specifications. The lease has a term of 15 years, with two options to renew of a further five years each and the option to break the lease at ten years but with financial penalties attached. The initial minimum annual rental under the agreement for the finance lease component was \$1.2 million. The operating lease component (disclosed in note 24 (b) (i)) was \$0.4 million. Both components increase each year for the term of the agreement by 3.25%.

	2011	2010
	\$'000	\$'000
<i>Commitments in relation to finance leases are payable as follows:</i>		
Within one year	1,280	1,237
Later than one year but not later than five years	5,551	5,362
Later than five years	13,080	14,578
Minimum lease payments	19,911	21,177
Future finance charges	(6,752)	(7,648)
Total lease liabilities	13,159	13,529
Current (note 14)	443	371
Non-current (note 16)	12,716	13,158
	13,159	13,529

24. Commitments (continued)

(iii) Other commitments

The Company has in place a number of contracts with consultants and contract research organisations in relation to its business activities. The terms of these contracts are for relatively short periods of time and/or allow for the contracts to be terminated with relatively short notice periods. The actual committed expenditure arising under these contracts is therefore not material.

25. Related party transactions

(a) Parent entities

The parent entity within the Group is Pharmaxis Ltd (incorporated in Australia).

(b) Subsidiaries

Interests in subsidiaries are set out in note 27.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Marketing, drug discovery, clinical, regulatory and administration services expenditure paid to subsidiaries	-	-	8,154,853	5,697,718

(e) Outstanding balances arising from transactions

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
<i>Current receivables</i>				
Subsidiaries	-	-	273,945	-
<i>Current payables</i>				
Subsidiaries	-	-	-	1,334,902

(f) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates pursuant to a Contract for Services. Under the contract the parent entity is required to pay for services within 30 days of receipt, with interest penalty clauses applying after 90 days.

Outstanding balances are unsecured and are repayable in cash.

26. Business combinations

(a) Summary of acquisition

On the 8 February 2010 the parent entity acquired 100% of the issued capital of Topigen Pharmaceuticals Inc., a Canadian based private biopharmaceutical company. The acquisition expanded the groups drug development portfolio.

As part of the acquisition, Pharmaxis Ltd agreed to issue up to 8.2 million shares in consideration for the acquisition of 100% of the securities in Topigen Pharmaceuticals, Inc. 6.2 million of these shares were issued as at 30 June 2010 and then up to a further 2 million shares were set to be issued: i) within 21 days following of the successful completion before 31 December 2010 of a defined preclinical study; or (ii) on January 2011 if Pharmaxis Ltd did not commence the defined preclinical study by 31 December 2010 or the report for the preclinical study was not generated by 31 December 2010.

Pharmaxis Ltd issued the remaining 2 million shares on 19 January 2011 pursuant to condition (ii) above.

(b) Summary of acquisition

On the 26 May 2010 the parent entity acquired 100% of the issued capital of Technology Innovation Limited, a United Kingdom based private company holding patents in relation to inhalation devices.

As part of the acquisition, Pharmaxis Ltd was committed to paying a further GBP 980,000 on 27 May 2011. This consideration was paid on the due date.

27. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2011	2010
			%	%
Pharmaxis Pharmaceuticals Limited	United Kingdom	Ordinary	100	100
Pharmaxis, Inc.	United States	Ordinary	100	100
Topigen Pharmaceuticals Inc.	Canada	Ordinary	100	100
Technology Innovation Limited	United Kingdom	Ordinary	100	100

28. Events occurring after the balance sheet date

On 5 July 2011 the Company announced it had formally requested a re-examination of the Bronchitol for cystic fibrosis marketing application by the European Committee for Medicinal Products for Human Use.

Except for the above, no matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (a) the group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the group's state of affairs in future financial years.

29. Financial reporting by segments

The company operates predominantly in one industry. The principal activities of the company are the research, development and commercialisation of pharmaceutical products.

The company operates in a number of geographical areas. The operations in overseas jurisdictions are in the early days of establishment and currently do not have a material impact on the overall group operations.

30. Reconciliation of loss after income tax to net cash outflows from operating activities

	2011	2010
	\$'000	\$'000
Loss for the year	(45,758)	(46,345)
Depreciation of property, plant & equipment	3,128	2,384
Amortisation of intangibles	1,898	637
Amortisation of lease incentive	(259)	(238)
Impairment losses – financial assets		
Trade receivables	(12)	(27)
Restructuring charges	-	332
Finance charges	859	854
Non-cash employee benefits expense - share-based payments	1,567	2,495
Net gain on disposal of non-current assets	(26)	(4)
Change in operating assets and liabilities		
(Increase) / decrease in trade receivables	(25)	34
(Increase) in inventories	(440)	(170)
Decrease in other operating assets	1,513	2,165
Increase / (decrease) in trade payables	149	(827)
(Decrease) in other operating liabilities	(78)	(1,085)
Increase in other provisions	118	112
Net cash outflow from operating activities	(37,366)	(39,683)

31. Earnings per share

	2011	2010
	Cents	Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the company	(20.2)	(21.0)
(b) Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	(20.2)	(21.0)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings / (loss) per share	226,874,590	220,735,745

(d) Information concerning the classification of option securities

Options granted to employees under the Pharmaxis Ltd Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Given the entity is currently loss making, the potential ordinary shares are anti-dilutive and have therefore not been included in the diluted earnings per share calculation. Details relating to the options are set out in note 33.

32. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board of Directors. The Board provides written principles of overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Group holds the following financial instruments:

	2011 \$'000	2010 \$'000
Financial assets		
Cash and cash equivalents	44,343	85,787
Trade and other receivables	796	2,711
Receivables	2,045	1,606
	47,184	90,104
Financial liabilities		
Trade and other payables	7,055	8,511
Borrowings	13,159	13,529
Other liabilities	3,049	3,308
	23,263	25,348

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally but is only exposed to minimal foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2011			30 June 2010		
	USD \$'000	GBP \$'000	EUR \$'000	USD \$'000	GBP \$'000	EUR \$'000
Cash and cash equivalents	289	6	24	6	2	2
Trade receivables	-	-	154	-	-	180
Other receivables	-	-	341	210	124	-
Trade payables	46	213	251	97	267	207
Other payables	1,098	406	807	458	2,128	456

Group sensitivity

Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the EUR with all other variables held constant, the Group's post-tax loss for the year would have been \$60,000 higher/\$49,000 lower (2010 GBP: \$206,000 higher/\$252,000 lower), mainly as a result of foreign exchange gains/losses on translation of EUR denominated financial assets/liabilities as detailed in the above table.

(ii) Cash flow and fair value interest rate risk

The Group's main interest exposure arises from bank accepted commercial bills held.

32. Financial risk management (continued)

As at the reporting date, the Group had the following cash profile:

	30 June 2011		30 June 2010	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	2.56%	3,897	0.93%	4,840
Bank accepted commercial bills	4.90%	40,446	4.80%	80,947
Other receivables	3.25%	2,045	3.95%	2,481

Group sensitivity

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2011, if interest rates had changed by +/- 80 basis points from the year-end rates with all other variables held constant, post-tax loss for the year would have been \$371,000 lower/higher (2010 – change of 80 bps: \$706,000 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independent rated parties with a minimum short term money market rating of 'A1+' and a long term credit rating of 'AA' are accepted. Credit risk on bank accepted bills is further managed by spreading these bills across four major Australian banks.

Customer credit risk is managed by the establishment of credit limits. The compliance with credit limits by customers is regularly monitored by management, as is the ageing analysis of receivable balances. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 7 and note 9.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings:

	2011 \$'000	2010 \$'000
Cash and cash equivalents		
A1+	44,343	85,787
Other receivables		
AA	1,691	2,471
Not rated	354	10
	2,045	2,481

Other receivables primarily represent bank guarantee facilities related to finance and operating leases, corporate credit card and local payment clearing house facilities.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets with short term maturity profiles.

32. Financial risk management (continued)

Maturities of financial liabilities

The table below analyse the Group's financial liabilities, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Group - at 30 June 2011						
Non-interest bearing	7,294	239	716	1,855	10,104	10,104
Fixed rate	443	515	2,045	10,156	13,159	13,159
Total non-derivatives	7,737	754	2,761	12,011	23,263	23,263
Group - at 30 June 2010						
Non-interest bearing	8,750	239	716	2,114	11,819	11,819
Fixed rate	371	437	1,768	10,953	13,529	13,529
Total non-derivatives	9,121	676	2,484	13,067	25,348	25,348

(d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The carrying value of financial liabilities for disclosure purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

33. Share-based payments

(a) Employee Option Plan (closed)

The Pharmaxis Employee Option Plan ("EOP") was approved by shareholders in 1999 and amended by shareholders in June 2003. The company ceased granting market exercise price options under the EOP in October 2009 in favour of Pharmaxis Performance Rights (refer below). The maximum number of options available to be issued under the EOP is 15% of total issued shares including the EOP. All employees and directors were eligible to participate in the EOP, but did so at the invitation of the Board.

The terms of market exercise price options issued were determined by the Board. Options were generally granted for no consideration and vest equally over a four year period. Once vested, the options remain exercisable for up to 10 years from the grant date or termination of employment (whichever is earlier). For options granted after 1 January 2003 the annual vesting is subject to approval by the Remuneration and Nomination Committee of the Board. The Committee gives its approval for vesting based on the achievement of individual employee's personal annual objectives. Options granted under the EOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price was set by the Board. Before the company listed on the Australian Securities Exchange in November 2003, the Board set the exercise price based on its assessment of the market value of the underlying shares at the time of grant. From listing until 31 August 2006 the exercise price was set as the average closing price of Pharmaxis Ltd shares on the Australian Securities Exchange on the 5 business days prior to the grant of the options. From 1 September 2006 the exercise price was set as the average of the volume weighted average price of Pharmaxis Ltd shares on the Australian Securities Exchange on the 5 business days prior to the grant of options.

Set out below are details of the total number of options exercised during the year and the weighted average share price at exercise date.

33. Share-based payments (continued)

	2011	2010
Number of options exercised during the year	836,875	1,521,125
Weighted average data:		
Share price at exercise date of options exercised during the year	\$2.58	\$2.49

There were 10,649,250 vested options at 30 June 2011 (10,108,500 at 30 June 2010). Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated - 2011								
1 Sept 2001	30 August 2011	\$0.3125	640,000	-	-	-	640,000	640,000
2 Dec 2001	30 Nov 2011	\$0.1250	85,000	-	85,000	-	-	-
12 May 2003	30 June 2012	\$0.3125	2,440,000	-	300,000	-	2,140,000	2,140,000
12 May 2003	30 Nov 2012	\$0.3125	480,000	-	-	-	480,000	480,000
1 July 2003	30 June 2013	\$0.3125	180,000	-	-	-	180,000	180,000
4 July 2003	3 July 2013	\$0.3125	200,000	-	100,000	-	100,000	100,000
9 Dec 2003	30 Nov 2013	\$0.3760	440,000	-	190,000	-	250,000	250,000
4 June 2004	3 June 2014	\$0.4260	15,000	-	-	-	15,000	15,000
2 Feb 2005	1 Feb 2015	\$0.8340	225,000	-	-	-	225,000	225,000
12 May 2005	11 May 2015	\$1.1470	290,000	-	-	-	290,000	290,000
5 Aug 2005	4 August 2015	\$1.7900	740,000	-	40,000	-	700,000	700,000
17 Oct 2005	16 Oct 2015	\$2.7720	30,000	-	-	-	30,000	30,000
13 Feb 2006	12 Feb 2016	\$2.1940	35,000	-	-	-	35,000	35,000
1 June 2006	31 May 2016	\$2.0340	87,500	-	-	-	87,500	87,500
15 Aug 2006	14 Aug 2016	\$1.9170	582,250	-	22,500	-	559,750	559,750
26 Oct 2006	14 Aug 2016	\$1.9170	210,000	-	-	-	210,000	210,000
20 Sept 2006	19 Sept 2016	\$1.8918	40,000	-	15,000	-	25,000	25,000
14 Dec 2006	13 Dec 2016	\$3.0710	32,500	-	-	-	32,500	32,500
18 Jun 2007	17 Jun 2017	\$3.3155	142,500	-	-	10,000	132,500	132,500
10 Aug 2007	9 Aug 2017	\$3.3890	1,471,500	-	-	10,000	1,461,500	1,461,500
5 Nov 2007	9 Aug 2017	\$3.3890	150,000	-	-	-	150,000	150,000
5 Nov 2007	14 Nov 2016	\$3.2258	200,000	-	-	-	200,000	200,000
6 Nov 2007	5 Nov 2017	\$4.2900	500,000	-	-	5,000	495,000	495,000
14 Dec 2007	13 Dec 2017	\$4.1373	2,000	-	-	-	2,000	2,000
8 Feb 2008	7 Feb 2018	\$3.2666	11,000	-	-	-	11,000	8,250
11 Apr 2008	10 Apr 2018	\$2.1135	14,000	-	-	-	14,000	10,500
23 June 2008	22 June 2018	\$1.5990	53,500	-	-	-	53,500	40,125
23 Oct 2008	22 June 2018	\$1.5990	200,000	-	-	-	200,000	150,000
12 Aug 2008	11 Aug 2018	\$1.8170	1,234,000	-	5,750	27,750	1,200,500	897,875
23 Oct 2008	11 Aug 2018	\$1.8170	200,000	-	-	-	200,000	150,000
23 Oct 2008	22 Oct 2018	\$1.6060	132,500	-	13,500	26,500	92,500	68,125
11 Dec 2008	10 Dec 2018	\$1.1607	50,000	-	-	15,000	35,000	26,250
5 Feb 2009	4 Feb 2019	\$1.3380	276,000	-	63,750	3,750	208,500	104,250
23 Apr 2009	22 Apr 2019	\$1.9574	5,000	-	1,250	-	3,750	1,875

33. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated - 2011								
23 Jun 2009	22 Jun 2019	\$2.5498	1,561,000	-	125	58,375	1,502,500	751,250
21 Oct 2009	22 Jun 2019	\$2.5498	200,000	-	-	-	200,000	-
Total			13,155,250	-	836,875	156,375	12,162,000	10,649,250
Weighted average exercise price			\$ 1.693	\$ -	\$ 0.562	\$ 2.256	\$ 1.764	\$ 1.697

Consolidated - 2010

1 Dec 1999	30 Nov 2009	\$0.1250	1,120,000	-	1,120,000	-	-	-
1 Sept 2001	30 August 2011	\$0.3125	640,000	-	-	-	640,000	640,000
2 Dec 2001	30 Nov 2011	\$0.1250	100,000	-	15,000	-	85,000	85,000
12 May 2003	30 June 2012	\$0.3125	2,490,000	-	50,000	-	2,440,000	2,440,000
12 May 2003	30 Nov 2012	\$0.3125	480,000	-	-	-	480,000	480,000
12 May 2003	30 April 2013	\$0.3125	16,000	-	16,000	-	-	-
1 July 2003	30 June 2013	\$0.3125	360,000	-	180,000	-	180,000	180,000
4 July 2003	3 July 2013	\$0.3125	200,000	-	-	-	200,000	200,000
9 Dec 2003	30 Nov 2013	\$0.3760	500,000	-	60,000	-	440,000	440,000
4 June 2004	3 June 2014	\$0.4260	15,000	-	-	-	15,000	15,000
2 Feb 2005	1 Feb 2015	\$0.8340	235,000	-	10,000	-	225,000	225,000
12 May 2005	11 May 2015	\$1.1470	290,000	-	-	-	290,000	290,000
5 Aug 2005	4 August 2015	\$1.7900	747,500	-	7,500	-	740,000	740,000
17 Oct 2005	16 Oct 2015	\$2.7720	52,500	-	-	22,500	30,000	30,000
13 Feb 2006	12 Feb 2016	\$2.1940	95,000	-	25,000	35,000	35,000	35,000
1 June 2006	31 May 2016	\$2.0340	87,500	-	-	-	87,500	87,500
15 Aug 2006	14 Aug 2016	\$1.9170	587,250	-	1,250	3,750	582,250	582,250
26 Oct 2006	14 Aug 2016	\$1.9170	230,000	-	-	20,000	210,000	210,000
20 Sept 2006	19 Sept 2016	\$1.8918	42,500	-	1,875	625	40,000	40,000
26 Oct 2006	15 Mar 2016	\$2.0680	200,000	-	-	200,000	-	-
14 Dec 2006	13 Dec 2016	\$3.0710	45,000	-	-	12,500	32,500	32,500
18 Jun 2007	17 Jun 2017	\$3.3155	157,500	-	-	15,000	142,500	106,875
10 Aug 2007	9 Aug 2017	\$3.3890	1,556,250	-	-	84,750	1,471,500	1,103,625
5 Nov 2007	9 Aug 2017	\$3.3890	150,000	-	-	-	150,000	112,500
5 Nov 2007	14 Nov 2016	\$3.2258	200,000	-	-	-	200,000	200,000
6 Nov 2007	5 Nov 2017	\$4.2900	507,000	-	-	7,000	500,000	431,250
14 Dec 2007	13 Dec 2017	\$4.1373	2,000	-	-	-	2,000	1,500
8 Feb 2008	7 Feb 2018	\$3.2666	18,500	-	-	7,500	11,000	5,500
11 Apr 2008	10 Apr 2018	\$2.1135	14,000	-	-	-	14,000	7,000
23 June 2008	22 June 2018	\$1.5990	61,000	-	625	6,875	53,500	26,750
23 Oct 2008	22 June 2018	\$1.5990	200,000	-	-	-	200,000	100,000
12 Aug 2008	11 Aug 2018	\$1.8170	1,375,000	-	28,875	112,125	1,234,000	612,000
23 Oct 2008	11 Aug 2018	\$1.8170	200,000	-	-	-	200,000	100,000
23 Oct 2008	22 Oct 2018	\$1.6060	157,500	-	5,000	20,000	132,500	63,750
11 Dec 2008	10 Dec 2018	\$1.1607	50,000	-	-	-	50,000	25,000
5 Feb 2009	4 Feb 2019	\$1.3380	276,000	-	-	-	276,000	69,000

33. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated - 2010								
23 Apr 2009	22 Apr 2019	\$1.9574	7,500	-	-	2,500	5,000	1,250
23 Jun 2009	22 Jun 2019	\$2.5498	1,609,500	-	-	48,500	1,561,000	390,250
21 Oct 2009	22 Jun 2019	\$2.5498	-	200,000	-	-	200,000	-
Total			15,075,000	200,000	1,521,125	598,625	13,155,250	10,108,500
Weighted average exercise price			\$ 1.562	\$ 2.550	\$ 0.253	\$ 2.347	\$ 1.693	\$ 1.486

There were 156,375 options forfeited during 2011 (598,625 options during 2010). The weighted average remaining contractual life of share options outstanding at the end of the period was 4.68 years (2010 – 5.56 years).

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2010 is detailed in the table below. The fair value at grant date was determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the weighted average share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

There were no options granted during the year ended 30 June 2011.

The model inputs for options granted during the year ended 30 June 2010 were as follows:

Grant date	No. of options granted	Exercise Price	Share Price	Time to expiration (days)	Volatility (%)	Annual interest rate (%)	Option value
21 Oct 2009	200,000	\$2.5498	\$ 2.63	2,190	50.00	5.49	\$1.4660
	200,000						

The options were issued for no consideration. The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) Performance Rights Plan

The Pharmaxis Performance Rights Plan was launched in September 2010 and enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as "Performance Rights" to eligible employees of the Group. Senior Executives will, together with other eligible employees be invited by the Remuneration and Nomination Committee to participate in this plan. The key features of the plan are as follows:

- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted will be determined by the Board taking into account the employee's position and responsibility, the employee's performance, the employee's salary, and the Pharmaxis share price. All other factors being unchanged, the number of performance rights to be granted is approximately equivalent to 25% of the number of traditional market based exercise priced options.
- The performance rights will vest three years from the date of grant, provided the employee remains an employee of the Group. The performance rights will lapse in the event the employee ceases to be an employee before the three year vesting date. The Board has not imposed additional performance criteria at the point of vesting in recognition of the initial grant reflecting assessed performance, the restrictions on resale discussed below, and the current stage of the Group's development.
- Shares issued upon exercise of performance rights are restricted from sale by the employee for a further twelve months. Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group's shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

There were Nil vested performance rights at 30 June 2011. Set out below are summaries of the performance rights granted under the plan:

33. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated - 2011								
7 Sept 2010	6 Sept 2020	\$ -	-	483,000	-	8,000	475,000	-
20 Oct 2010	6 Sept 2020	\$ -	-	50,000	-	-	50,000	-
15 Nov 2010	14 Nov 2020	\$ -	-	23,000	-	-	23,000	-
24 Jan 2011	23 Jan 2021	\$ -	-	7,000	-	-	7,000	-
Total			-	563,000	-	8,000	555,000	-

There were no performance rights issued during 2010.

There were 8,000 performance rights forfeited during 2011.

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 9.2 years.

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2011 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

The model inputs for performance rights granted during the year ended 30 June 2011 are as follows:

Grant date	No. of options granted	Exercise Price	Share Price
7 Sept 2010	483,000	\$ -	\$ 1.96
20 Oct 2010	50,000	\$ -	\$ 2.76
15 Nov 2010	23,000	\$ -	\$ 2.72
24 Jan 2011	7,000	\$ -	\$ 2.96
Total			
563,000			

(c) Employee Share Plan

The Pharmaxis Share Plan was launched in September 2010 and will grant up to A\$1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. For employees outside of Australia, Pharmaxis Ltd may grant A\$1,000 of options (refer note (d) below) in place of ordinary shares. Senior executives do not participate in this plan.

Set out below are summaries of employee shares granted under the plan:

Grant Date	Exercise price	Balance at start of the year	Granted during the year
Consolidated - 2011			
24 Sept 2010	\$ -	-	43,200
Total		-	43,200

There were no shares issued under the employee share plan during 2010.

(d) International Employee Equity Plan

The Pharmaxis International Employee Equity Plan was launched in September 2010 and enables the grant of up to A\$1,000 of zero exercise price options to eligible employees outside Australia.

There were Nil vested options at 30 June 2011. Set out below are summaries of the performance options granted under the plan:

33. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated - 2011								
24 Sept 2010	23 Sept 2020	\$ -	-	10,080	-	480	9,600	-
Total			-	10,080	-	480	9,600	-

There were no performance options issued during 2010. There were 480 performance options forfeited during 2011. The weighted average remaining contractual life of performance rights outstanding at the end of the period was 9.2 years.

Fair value of performance rights granted

The assessed fair value at grant date of performance options granted during the year ended 30 June 2011 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

The model inputs for performance rights granted during the year ended 30 June 2011 are as follows:

Grant date	No. of options granted	Exercise Price	Share Price
24 Sept 2010	10,080	\$ -	\$ 2.069
	10,080		

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2011 \$'000	2010 \$'000
Equity instruments issued under employee equity plans	1,567	2,495

34. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts

	2011 \$'000	2010 \$'000
Balance sheet		
Current assets	45,171	83,388
Total assets	98,416	143,385
Current liabilities	6,388	8,619
Total liabilities	22,388	25,201
<i>Shareholders' equity</i>		
Issued capital	267,610	267,050
Reserves		
Share based payments reserve	13,848	12,370
Retained earnings	(205,429)	(161,236)
	76,029	118,184

34. Parent entity financial information (continued)

	2011	2010
	\$'000	\$'000
Loss for the year	(44,194)	(42,798)
Total comprehensive income	(44,194)	(42,798)

(b) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2011, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$Nil (30 June 2010 - \$156,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.