Pharmaxis Ltd

ABN 75 082 811 630

ASX Preliminary final report – 30 June 2004

Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with the prospectus dated 26th September 2003 and any public announcements made by the company during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Year ended 30th June 2004
(Previous corresponding period: Year ended 30th June 2003)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Up**	**71%**	to	**2,228**
Profit / (Loss) from ordinary activities after tax	**Up**	**309%**	to	**(6,001)**
Net profit / (loss) for the year attributable to members	**Up**	**309%**	to	**(6,001)**

Dividends
It is not proposed to pay a dividend

Other Appendix 4E information

	30 June 2004	30 June 2003
Net tangible assets per ordinary share	**$ 0.24**	$ 0.15

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

Overview

Major milestones achieved during the year include:

- the company listed on the Australian Stock Exchange on 10 November 2003, raising $25 million
- the company commenced manufacture of Aridol™ and Bronchitol™ for use in clinical trials, at its TGA registered manufacturing facility at Frenchs Forest
- the Phase III clinical trial of the Aridol lung function test and the Phase II clinical trials of Bronchitol for bronciectasis and cystic fibrosis commenced recruitment phase.
- both the Aridol and bronchiectasis clinical trials successfully completed recruitment in July 2004
- the senior management team was completed with the appointment of Mr Gary Phillips as Commercial Director. Another key appointment was Mr Ron Sinani as Senior Regulatory Affairs Associate. The clinical trials team and manufacturing group have each expanded due to the increased clinical trial activity. Total employees at 30 June 2004 was 28
- the company was successful in its application for research funding under AusIndustry's Pharmaceuticals Partnership Program. The grant was for approximately $6.1 million over the four years commencing 1 July 2004.
- a PCT International Application and two provisional patent applications in the autoimmune disease area have been filed

Financial Highlights

	30 June 2004 $	30 June 2003 $
Revenue		
Grant income	**1,104,616**	975,974
Interest	**1,075,380**	284,417
Other income	**48,002**	43,058
	2,227,998	1,303,449
Expenses		
Research & development	**(6,047,014)**	(1,789,762)
Administration	**(2,181,653)**	(981,476)
Net loss	**$(6,000,669)**	$(1,467,789)
Cash and bank accepted commercial bills	**$25,217,023**	$7,383,923
Net assets	**$26,780,231**	$9,890,061

Grant income:

Grant income in 2004 derives from the $3.0 million R&D Start Grant awarded to the company in June 2003 for the development of new treatments for cystic fibrosis. This grant is significantly larger than grants received in prior periods.

Interest:

The company started the 2004 fiscal year with $7.4 million of cash and bank accepted commercial bills on which interest was earned. The net $22.9 million raised in the 10 November 2003 initial public offering added significantly to these invested funds. By contrast, in 2003 the company had less than a million dollars of invested cash until a $9.6 million private venture capital equity round in late August 2002. The increase in interest income while mainly attributable to the greater level of funds invested during the year, was to a lesser extent the result of a board decision to invest in higher yielding bank accepted commercial bills and also rising interest rates.

Research & development expenses:
Research & development expenses increased by approximately $4.3 million in 2004 compared to 2003. There are four components to the research & development expenses:

1. The research unit based at the John Curtin School of Medical Research within the Australian National University which is focused on autoimmune diseases. The level of expenditure in the 2004 for this research unit has not changed materially from 2003.
2. The preclinical development group which relocated from our Canberra office to Frenchs Forest in January 2004. This group is managing the outsourced safety/toxicology studies of the Aridol and Bronchitol products and the preclinical development of lead compounds in the autoimmune area (PXS25 and PXS2030). This area of expenditure accounted for approximately thirty percent of the increase in overall research & development expenditure reflecting the initiation of work in these areas.
3. The clinical trials group also relocated from Canberra to Frenchs Forest in January 2004. This internal clinical trial group design and monitor the clinical trials run by the company. The majority of the expenditures of this group are directed at hospitals and other services related to the conduct and analysis of clinical trials. During 2004 expenditure commenced on three clinical trials. Approximately fifty percent of the increase in overall research & development expenditure is attributable to the increased expenditure on clinical trials.
4. Manufacturing. The TGA registered manufacturing facility at Frenchs Forest is focused on producing material for clinical trials and developing enhanced manufacturing processes. It is therefore classified as a research & development expenditure. This area of expenditure also accounted for approximately twenty percent of the increase in overall research & development expenditure, reflecting particularly the increased activity in clinical trials.

Administration expenses:
Administration expenses include accounting, legal, intellectual property, administration, office and public company costs. Until November 2002 the small level of these services required by the company were provided by outside providers, and the company did not have its own premises. Since November 2002 when the company first leased its facilities at Frenchs Forest it has employed the staff required to establish these administrative capabilities. The growth of the company and its listing on the Australian Stock Exchange has also increased the level of administration support needed. During 2004 the company also incurred costs to relocate a number of staff members to Sydney.

Cash Flow
The $25 million initial public offering of the company and its subsequent listing on the Australian Stock Exchange on 10 November 2003 increased cash funds of the company by $22.9 million after deducting associated expenses. The company ended the year with $25.2 million in cash and bank accepted commercial bills.

The fit-out of the Frenchs Forest facility and installation of the manufacturing equipment was substantially completed in 2003. Expenditures on plant and equipment have therefore significantly reduced in the current reporting period.

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 complete Directors' and Financial Reports.

Attachment 1

Pharmaxis Ltd

ACN 082 811 630

Financial Report

30 June 2004

Pharmaxis Ltd

Financial Report – 30 June 2004

Contents

Pharmaxis Ltd

Statement of financial performance

For the year ended 30 June 2004

	Notes	2004 **$**	2003 $
Revenue from sale of goods	2	**-**	-
Cost of sales		**-**	-
Gross profit		**-**	-
Other revenues from ordinary activities	2	**2,227,998**	1,303,449
Other expenses from ordinary activities			
Research & development expenses		**(6,047,014)**	(1,789,762)
Administration expenses		**(2,181,653)**	(981,476)
Profit / (loss) from ordinary activities before related income tax expense		**(6,000,669)**	(1,467,789)
Income tax expense / (credit)	4	**-**	-
Net profit / (loss)	14(f)	**$ (6,000,669)**	$ (1,467,789)
Earnings per share	24	**Cents**	Cents
Basic and diluted earnings / (loss) per share		**(6.6)**	(2.8)

The above statement of financial performance should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Statement of financial position
For the year ended 30 June 2004

	Notes	**2004** $	2003 $
Current Assets			
Cash and bank balances	5	**1,117,532**	1,391,707
Other financial assets	6	**24,099,491**	5,992,216
Receivables	7	**-**	62,582
Other	8	**148,193**	84,235
Total Current Assets		**25,365,216**	7,530,740
Non-Current Assets			
Plant and equipment	9	**1,473,888**	1,515,016
Intangible assets	10	**1,161,909**	1,205,000
Other	8	**260,007**	243,800
Total Non-Current Assets		**2,895,804**	2,963,816
Total Assets		**28,261,020**	10,494,556
Current Liabilities			
Accounts payable	11	**1,447,810**	284,433
Other liabilities	12	**23,223**	318,563
Total Current Liabilities		**1,471,033**	602,996
Non-Current Liabilities			
Provisions	13	**9,756**	1,499
Total Non-Current Liabilities		**9,756**	1,499
Total Liabilities		**1,480,789**	604,495
Net Assets		**$ 26,780,231**	$ 9,890,061
Shareholders' Equity			
Share capital	14(a)	**35,695,368**	12,804,529
Retained earnings	14(f)	**(8,915,137)**	(2,914,468)
Total Shareholders' Equity		**$ 26,780,231**	$ 9,890,061

The above statement of financial position should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Statement of cashflows

For the year ended 30 June 2004

	Notes	**2004** $	2003 $
Cash Flows from Operating Activities			
Research grant receipts from governments		**871,858**	1,290,093
Payments to suppliers and employees		**(6,662,396)**	(2,773,124)
Interest received		**1,090,254**	269,543
Rental income		**48,134**	45,585
Tax paid		**-**	-
Net cash flows from operating activities	19	**(4,652,150)**	(1,167,903)
Cash Flows from Investing Activities			
Payment for properties, plant and equipment	9	**(360,086)**	(1,569,278)
Payment for patent applications		**(45,503)**	(83,075)
Net cash flows from investing activities		**(405,589)**	(1,652,353)
Cash Flows from Financing Activities			
Issuance of shares	14	**25,000,000**	9,630,000
Transaction costs on share issue	14	**(2,109,161)**	(176,579)
Cancellation of shares		**-**	(101)
Net cash flows from financing activities		**22,890,839**	9,453,320
Net Increase in Cash Held		**17,833,100**	6,633,064
Cash at the beginning of the financial year		**7,383,923**	750,859
Cash at the End of the Financial Year	19	**$ 25,217,023**	$ 7,383,923

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

Pharmaxis Ltd

Notes to and forming part of the financial statements
For the year ended 30 June 2004

Contents

Note 1 Summary of significant accounting policies

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

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed, and the key differences in accounting policies that are expected to arise, is set out in note 1(r).

(a) Operating revenue

Revenues are recognized at fair value of the consideration received net of any applicable taxes.

Interest revenue is recognized as it accrues, taking into account the effective yield on the financial instruments.

Government research grant income is recognized as and when the relevant research expenditure is incurred. When the company receives income in advance of incurring the relevant expenditure, it is treated as deferred income as the company does not control the income until the relevant expenditure has been incurred.

(b) Receivables

Trade debtors are carried at amounts due. The collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(c) Research and development costs

Research and development costs are expensed as incurred.

(d) Inventories

Raw materials and stores purchased to manufacture materials for clinical trials, together with the cost of manufacture are expensed as part of research and development expenses.

(e) Cash and bank accepted commercial bills

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

Bank accepted commercial bills 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.

(f) Depreciation of plant and equipment

Items of plant and equipment, including leasehold improvements are depreciated or amortized over their estimated useful life to the company, ranging from 3 years to 10 years using the straight line method. Assets are depreciated or amortized from the date of acquisition and up to the date of disposal.

(g) Trade and other creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

Note 1 Summary of Significant Accounting Policies (continued)

(h) Employee entitlements

(i) Wages and salaries, annual leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employee services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Superannuation

The company contributes to standard defined contribution superannuation funds on behalf of all employees and directors at up to 9% of employee gross salary.

(iii) Employee share options

The value of options granted under share option plans described in note 21 is not charged as an employee entitlement expense.

(iv) Long service leave

A liability for long service leave is recognised, and is 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 interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(i) Intangible assets

Costs of purchase of patent licenses and application costs for new patents are capitalised and amortised over the period in which the related benefits are expected to be realised. Remaining lives of patents range from 12 to 20 years.

(j) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse. The future tax benefits relating to tax losses and timing differences are not carried forward as assets unless the benefit is virtually certain of realisation.

(k) Foreign currency translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

(l) Lease payments

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expense in the periods in which they are incurred.

(m) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

(n) Acquisitions of assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

Note 1 Summary of Significant Accounting Policies (continued)

(o) Non current assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount.

In assessing recoverable amounts of non-current assets the relevant cash flows have been discounted to their present value.

(p) Website costs

Costs in relation to building, enhancing and operating web sites controlled by the company are charged to expenses in the period in which they are incurred.

(q) Contributed equity

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

(r) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Chief Financial Officer of the company is managing the transition to Australian equivalents to IFRS and reports progress to each meeting of the Audit Committee. The company's transition plan is currently on schedule. An analysis of most of the Australian equivalents to IFRS has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Pending Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Some of these choices are still being analysed to determine the most appropriate accounting policy for the company.

The changes identified to date that will be required to the company's existing accounting policies include the following:

(i) Income tax

Under the pending Australian standard AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss.

(ii) Equity-based compensation benefits

Under the pending Australian standard AASB 2 *Share-based Payment*, equity-based compensation to employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

Note 1 Summary of Significant Accounting Policies (continued)

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the full impact of the transition to Australian equivalents to IFRS on the company's financial position and reported results.

Note 2 Operating revenue

	2004 $	2003 $
Sales revenue	**-**	-
Interest received	**1,075,380**	284,417
Government research grant income	**1,104,616**	975,974
Rental income	**48,002**	41,441
Other	**-**	1,617
	2,227,998	1,303,449

Note 3 Operating profit

	2004 $	2003 $
Operating profit before income tax for the year includes the following items:		
Gains		
Foreign exchange gain	**-**	1,617
Expenditure		
Depreciation of plant and equipment	**401,214**	169,812
Amortization of intangible assets	**88,594**	85,922
Rental expense of operating leases	**345,517**	237,793

Notes to and forming part of the financial statements
For the year ended 30 June 2004

Note 4 Income tax

The prima facie tax on the operating profit / (loss) differs from the income tax provided in the accounts and is reconciled as follows:

	2004 $	2003 $
Operating profit / (loss) before income tax	**(6,000,669)**	(1,467,789)
Prima facie tax at 30%	**(1,800,201)**	(440,337)
Add/deduct:		
Non allowable items	**26,362**	24,705
Amortisation of capital raising costs included in equity	**(140,078)**	(11,610)
Tax benefits not booked	**1,913,917**	427,242
Income tax expense attributable to operating results	**-**	-
Future income tax benefit not booked:		
Tax losses	**2,610,052**	776,207
Timing differences	**27,471**	10,675
	2,637,523	786,882

The future income tax benefits will only be obtained if:

i. The company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and
ii. The company continues to comply with the conditions for deductibility imposed by tax legislation, and
iii. No change in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

Note 5 Cash assets

	2004 $	2003 $
Cash at bank	**54,453**	71,752
Cash on hand	**300**	447
Cash on deposit	**1,062,779**	1,319,508
	1,117,532	1,391,707

The average interest rate on cash and bank balances is 4.3%.

Note 6 Other financial assets

	2004 $	2003 $
Bank accepted commercial bills	**24,099,491**	5,992,216

Bank accepted commercial bills mature in July and August 2004. The weighted average interest rate on the bank accepted commercial bills is 5.4%.

Note 7 Receivables

	2004 $	2003 $
Trade debtors	**-**	62,582
Less: Provision for doubtful debts	**-**	-
	-	62,582

Trade debtors represent government research grants owed to the entity and are typically settled within 45 days.

Note 8 Other assets

	2004 $	2003 $
Current		
Prepayments	**77,626**	51,452
Other	**70,567**	32,783
	148,193	84,235
Non Current		
Security deposits	**260,007**	243,800

Note 9 Plant and equipment

	2004 $	2003 $
Plant and equipment – at cost	**1,925,069**	1,644,526
Less: Accumulated depreciation	**(582,141)**	(224,679)
	1,342,928	1,419,847
Leasehold improvements – at cost	**152,399**	120,264
Less: Accumulated depreciation	**(64,986)**	(25,095)
	87,413	95,169
Motor vehicles – at cost	**47,408**	-
Less: Accumulated depreciation	**(3,861)**	-
	43,547	-
	1,473,888	1,515,016

Reconciliation
A reconciliation of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year are set out below.

	Plant & equipment $	**Leasehold improvements $**	**Motor vehicles $**	**Total $**
Carrying amount at 1 July 2003	1,419,847	95,169	-	1,515,016
Additions	280,543	32,135	47,408	360,086
Depreciation expense	(357,462)	(39,891)	(3,861)	(401,214)
Carrying amount at 30 June 2004	1,342,928	87,413	43,547	1,473,888

Note 10 Intangible assets

	2004	2003
	$	$
Patents and Licenses – at cost	**1,557,074**	1,511,571
Less: Accumulated amortization	**(395,165)**	(306,571)
	1,161,909	1,205,000

Note 11 Accounts payable

	2004	2003
	$	$
Current		
Trade creditors	**245,190**	113,396
Other creditors and accruals	**1,202,620**	171,037
	1,447,810	284,433

Note 12 Other liabilities

	2004	2003
	$	$
Current		
Deferred government research grants	**23,223**	318,563

Note 13 Provisions

	2004	2003
	$	$
Non-current		
Employee entitlements	**9,756**	1,499

	2004	2003
	$	$
Employee entitlements		
Annual leave included in other creditors and accruals	**98,810**	52,697
Provision for long service leave included in non-current employee entitlements	**9,756**	1,499
	108,566	54,196

	Numbers	
	2004	2003
Employee Numbers		
Employees and full time contractors at end of the financial year	**28**	18

Note 14 Shareholders' equity

		Notes	**2004** $	2003 $
(a)	Contributed equity			
	108,016,000 ordinary shares (2003: 1,400,000)	(b)	**35,695,368**	1,400,000
	Nil "A" class converting preference shares (2003: 2,000,000)	(c)	**-**	2,000,000
	Nil "B" class converting preference shares (2003: 3,852,000)	(d)	**-**	9,404,529
			35,695,368	12,804,529

The company completed its initial public offering and listed on the Australian Stock exchange on 10 November 2003. As part of the transition to a listed public company:

- the company changed its status from a proprietary to a public company
- a new constitution was adopted and is available on the company's website
- all shares were split on the basis of eight new shares for one old share
- following the share split all "A" and "B" series converting preference shares were converted to 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 for each share held.

		Number of shares	**$**
(b)	Movements in ordinary shares		
	Opening balance at 1 July 2003	**1,400,000**	**1,400,000**
	Split of existing shares	**9,800,000**	**-**
	Conversion of "A" and "B" converting preference shares	**46,816,000**	**11,404,529**
	Shares issued – initial public offering at $0.50 each	**50,000,000**	**25,000,000**
	Transaction costs on share issue	**-**	**(2,109,161)**
	Ordinary shares at the end of the financial year	**108,016,000**	**35,695,368**

		2004 Number of shares	**2004 $**
(c)	Movements in A class converting preference shares		
	Opening balance at 1 July 2003	**2,000,000**	**2,000,000**
	Split of existing shares	**14,000,000**	**-**
	Conversion to ordinary shares	**(16,000,000)**	**(2,000,000)**
		-	**-**

		2004 Number of shares	**2004 $**
(d)	Movements in B class converting preference shares		
	Opening balance at 1 July 2003	**3,852,000**	**9,404,529**
	Split of existing shares	**26,964,000**	**-**
	Conversion of "A" and "B" converting preference shares	**(30,816,000)**	**(9,404,529)**
		-	**-**

Note 14 Shareholders' equity (continued)

(e) Option plan
Information regarding the employee option plan is set out in Note 21.

	2004 $	2003 $
(f) Retained earnings		
Retained earnings at the beginning of the financial year	**(2,914,468)**	(1,446,679)
Net profit / (loss)	**(6,000,669)**	(1,467,789)
Retained earnings at the end of the financial year	**(8,915,137)**	(2,914,468)

Note 15 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 predominantly in one geographical area, being Australia.

Note 16 Auditor's remuneration

	2004 $	2003 $
Amounts received, or due and receivable by the auditors of the company for:		
Audit of the company's accounts	**40,100**	14,400
Other assurance services:		
Audit of government research grant claims	**4,090**	-
Advisory services		
Investigating accountants report in prospectus for initial public offering	**55,000**	-
Other advisory services	**6,500**	-
	105,690	14,400

Note 17 Director and executive disclosures

Directors
The following persons were directors of Pharmaxis Ltd during the financial year:

Chairman – non-executive
Denis Michael Hanley

Executive directors
Alan Duncan Robertson, *Managing Director and Chief Executive Officer*
Brett Charlton, *Medical Director*
William Butler Cowden, *alternate for Brett Charlton, resigned 22 September 2003*

Non-executive directors
Brigitte Helen Smith
Charles Peter Hunt Kiefel
Carmel Judith Hillyard
Malcolm John McComas, *appointed 4 July 2003*
Geoffrey Edward Duncan Brooke, *alternate for Brigitte Smith; resigned 22 September 2003*
Mark Andrew Morrisson, *alternate for Carmel Hillyard; resigned 22 September 2003*

Executives (other than directors) with the greatest authority for strategic direction and management
The company had four executives with authority for the strategic direction and management of the company ("specified executives") during the financial year:

Name	Position
William Butler Cowden	Chief Scientific Officer
John Francis Crapper	Chief Operations Officer, *appointed 1 July 2003*
David Morris McGarvey	Chief Financial Officer and Company Secretary
Gary Jonathan Phillips	Commercial Director*, appointed 1 December 2003*

Remuneration of directors and executives
Principles used to determine the nature and amount of remuneration
As a company building an international pharmaceutical business, Pharmaxis requires a Board and senior management team that have both the technical capability and relevant experience to execute the company's business plan. The directors consider options a key tool in attracting the required talented individuals to the Board and management team while staying within the fiscal constraints of an growing company.

Director and executive remuneration includes a mix of short and long-term components. Remuneration of executive directors and other executives include a meaningful proportion that varies with individual performance. Cash bonuses and the vesting of options are subject to performance assessment by the Remuneration and Nomination Committee. Performance targets in the main relate to objectives and milestones assigned to individual executives from the company's annual business plan. Individual performance targets are agreed by the Remuneration and Nomination Committee and the full board each year. Annual performance of each executive is reviewed by the Remuneration and Nomination Committee each year.

As non executive directors assess individual and company performance, their remuneration does not have a variable performance related component.

Note 17 Director and executive disclosures (continued)

Non-executive directors
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee of the Board. There are four components to the fees:

- a base fee, currently \$52,500 for the chairman and \$25,625 for other non-executive directors
- an additional flat annual fee for non-executive directors serving on committees, currently \$5,000
- statutory superannuation for the independent non executive directors, currently 9%
- options under the Pharmaxis Ltd Employee Option Plan. Options vest over approximately four years from grant date. Note that options are not granted to BH Smith or CJ Hillyard who are principals of their respective venture capital firms that manage funds which are significant shareholders of the company

Non-executive directors' fees (including statutory superannuation) are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The pool currently stands at a maximum of \$300,000 in total. The amount paid to non-executive directors in 2004 was \$149,846.

Retirement allowances for directors
Termination payments apply only to executive directors, as discussed below.

Executive directors and other senior executives:
There are four components to executive remuneration:

- a base salary paid in cash or packaged at the executives discretion within FBT guidelines as a total cost package
- statutory superannuation up to 9%
- A variable incentive component payable annually dependent upon achievement of performance targets set and approved by the Remuneration and Nomination Committee
- Options under the Pharmaxis Employee Option Plan. Options typically vest over a four year time frame. For options granted after 1 January 2003, the number of an individual executive's options vesting is subject to achievement of the performance targets set and approved by the Remuneration and Nomination Committee. The committee may approve the vesting of all or only a portion of the relevant options. Founder options were granted in 2003 to the founding scientists – WB Cowden and B Charlton. These options vested at 30 June 2003. Sign-on options were granted to DM McGarvey in 2003 and JF Crapper and GJ Phillips in 2004. Sign-on options vest completely on the first anniversary of the executive commencing employment with the company

Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

Termination payments
Termination payments apply only to executive directors and senior management. The employment contracts for each of the above listed executive directors and executives can be terminated immediately by the company for serious misconduct, with one month's notice if the employee becomes mentally or physically unfit to perform or carry out their employment, with two months notice on the grounds of redundancy and with three months notice without cause. No additional payments apply on termination.

Note 17 Director and executive disclosures (continued)

Details of remuneration

Details of the remuneration of each director of Pharmaxis Ltd and each of the four specified executives of the company, including their personally-related entities, are set out in the following table:

Directors of Pharmaxis Ltd

2004	Primary			Super-annuation $	Equity	
Name	Cash salary and fees $	Cash incentive 2003(1) $	Cash incentive 2004(1) $		Options $	Total $
Denis Michael Hanley	53,750			4,838	28,017	86,605
Alan Duncan Robertson	182,500	50,000	72,000	15,750	67,240	387,490
Brett Charlton	133,250	30,000	36,000	11,700	33,620	244,570
Brigitte Helen Smith	15,313	-	-	-	-	15,313
Charles Peter Hunt Kiefel	27,813	-	-	2,503	16,038	46,354
Carmel Judith Hillyard	15,313	-	-	-	-	15,313
Malcolm John McComas	27,813	-	-	2,503	17,465	47,781
William Butler Cowden (*alternate for Brett Charlton; resigned 22 September 2003*)	30,582	30,000	-	2,685	7,716	70,983
Geoffrey Edward Duncan Brooke (*alternate for Brigitte Smith; resigned 22 September 2003)*	-	-	-	-	-	-
Mark Andrew Morrisson (*alternate for Carmel Hillyard; resigned 22 September 2003)*	-	-	-	-	-	-
Total	486,334	110,000	108,000	39,979	170,096	914,409

Specified executives of the company

2004	Primary			Super-annuation $	Equity	
Name	Cash salary and fees $	Cash incentive 2003(1) $	Cash incentive 2004(1) $		Options $	Total $
William Butler Cowden (*alternate director until 22 September 2003)*	102,668	-	12,000	9,015	25,904	149,587
John Francis Crapper	174,250	-	22,500	15,300	122,713	334,763
David Morris McGarvey	184,496	10,000	40,000	16,200	94,759	345,455
Gary Jonathan Phillips *(appointed 1 December 2003)*	107,917	-	23,320	9,713	54,782	195,732
Total	569,331	10,000	97,820	50,228	298,158	1,025,537

(1) Cash incentives in respect of the 2003 financial year were approved by the Remuneration Committee and paid in August 2003. Cash incentives in respect of the 2004 financial year were approved by the Remuneration and Nomination Committee and paid in June 2004.

Note 17 Director and executive disclosures (continued)

Service agreements

Remuneration and other terms of employment for the Chief Executive Officer, Medical Director and the specified executives are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash incentives and participation, when eligible, in the Pharmaxis Ltd Employee Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

Alan Duncan Robertson, *Managing Director & Chief Executive Officer*

- Term of agreement – 30 June 2005.
- Effective 1 January 2004, a base salary of $190,000, superannuation of $15,750 and a bonus potential of $80,000. The base salary and bonus potential are reviewed annually by the Remuneration and Nomination Committee.
- The employment can be terminated immediately by the company for serious misconduct, with one month's notice if the employee becomes mentally or physically unfit to carry out or perform his employment, with two months notice on the grounds of redundancy and with three months notice without cause. No additional payments apply on termination other than accrued annual leave.

Brett Charlton, *Medical Director*

- Term of agreement – 30 June 2005.
- Effective 1 January 2004, a base salary of $136,500, superannuation of $11,700 and a bonus potential of $40,000. The base salary and bonus potential are reviewed annually by the Remuneration and Nomination Committee.
- The employment can be terminated immediately by the company for serious misconduct, with one month's notice if the employee becomes mentally or physically unfit to carry out or perform his employment, with two months notice on the grounds of redundancy and with three months notice without cause. No additional payments apply on termination other than accrued annual leave.

William Butler Cowden, *Chief Scientific Officer*

- Term of agreement – 30 June 2005.
- Effective 1 January 2004, a base salary of $136,500, superannuation of $11,700 and a bonus potential of $40,000. The base salary and bonus potential are reviewed annually by the Remuneration and Nomination Committee.
- The employment can be terminated immediately by the company for serious misconduct, with one month's notice if the employee becomes mentally or physically unfit to carry out or perform his employment, with two months notice on the grounds of redundancy and with three months notice without cause. No additional payments apply on termination other than accrued annual leave.

John Francis Crapper, *Chief Operations Officer*

- Term of agreement – 30 June 2005.
- Effective 1 January 2004, a base salary of $178,500, superannuation of $15,300 and a bonus potential of $25,000. The base salary and bonus potential are reviewed annually by the Remuneration and Nomination Committee.
- The employment can be terminated immediately by the company for serious misconduct, with one month's notice if the employee becomes mentally or physically unfit to carry out or perform his employment, with two months notice on the grounds of redundancy and with three months notice without cause. No additional payments apply on termination other than accrued annual leave.

Note 17 Director and executive disclosures (continued)

David Morris McGarvey, *Chief Financial Officer and Company Secretary*

- Term of agreement – 30 June 2005.
- Effective 1 January 2004, a base salary of $189,000, superannuation of $16,200 and a bonus potential of $40,000. The base salary and bonus potential are reviewed annually by the Remuneration and Nomination Committee.
- The employment can be terminated immediately by the company for serious misconduct, with one month's notice if the employee becomes mentally or physically unfit to carry out or perform his employment, with two months notice on the grounds of redundancy and with three months notice without cause. No additional payments apply on termination other than accrued annual leave.

Gary Jonathan Phillips, *Commercial Director, appointed 1 December 2003*

- Term of agreement – 30 June 2005.
- Effective 1 December 2003, a base salary of $185,000, superannuation of $16,650 and a bonus potential of $40,000. The base salary and bonus potential are reviewed annually by the Remuneration and Nomination Committee.
- The employment can be terminated immediately by the company for serious misconduct, with one month's notice if the employee becomes mentally or physically unfit to carry out or perform his employment, with two months notice on the grounds of redundancy and with three months notice without cause. No additional payments apply on termination other than accrued annual leave.

Note 17 Director and executive disclosures (continued)

Share-based compensation – options

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Number of options granted	Number of option grantees	Date exercisable
12 May 2003	30 June 2012	$0.3125	$0.1679	2,400,000	4	25% at each of 30 June 2003, 2004, 2005 and 2006, subject to Remuneration and Nomination Committee annual approval. Directors options subject to ASX escrow until 10 November 2005.
12 May 2003	30 June 2012	$0.3125	$0.1679	400,000	1	25% at each of 30 June 2003, 2004, 2005 and 2006. Subject to ASX escrow until 10 November 2005.
12 May 2003	30 June 2012	$0.3125	$0.1679	480,000	1	1 December 2003 (sign-on options)
12 May 2003	30 June 2012	$0.3125	$0.1679	960,000	2	30 June 2003. Subject to ASX escrow until 10 November 2005.
1 July 2003	30 June 2013	$0.3125	$0.1681	480,000	1	25% at each of 30 June 2004, 2005, 2006 and 2007, subject to Remuneration and Nomination Committee annual approval.
1 July 2003	30 June 2013	$0.3125	$0.1681	480,000	1	1 July 2004 (sign-on options)
4 July 2003	3 July 2013	$0.3125	$0.1681	200,000	1	25% at each of 30 June 2004, 2005, 2006 and 2007. Options issued to directors are also subject to ASX escrow until 10 November 2005.
9 December 2003	30 November 2013	$0.3760	$0.2184	250,000	1	25% at each of 30 June 2004, 2005, 2006 and 2007, subject to Remuneration and Nomination Committee annual approval.
9 December 2003	30 November 2013	$0.3760	$0.2184	250,000	1	30 November 2004 (sign-on options)

Options are granted under the Pharmaxis Ltd Employee Option Plan. Further information on the options is set out in note 21.

Equity instrument disclosures relating to directors and executives

Options provided as remuneration

Details of options over ordinary shares in the company provided during the year as remuneration to each director of Pharmaxis Ltd and each of the specified executives of the company are set out below. When exercisable, each option is convertible into one ordinary share of Pharmaxis Ltd. Further information on the options is set out in note 21.

Name	Number of options granted during the year	Number of options vested during the year
Directors of Pharmaxis Ltd		
Malcolm John McComas	200,000	50,000
Specified executives of the company		
John Francis Crapper	960,000	120,000
Gary Jonathan Phillips	500,000	62,500

Note 17 Director and executive disclosures (continued)

The assessed fair value at grant date of options granted to directors and specified executives is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature 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.

Shares provided on exercise of remuneration options
Nil

Option holdings
The numbers of options over ordinary shares in the company held during the financial year by each director of Pharmaxis Ltd and each of the specified executives of the company, including their personally-related entities, are set out below.

Name	Balance at the start of the year(1)	Granted during the year as remuneration	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 (2)
Directors of Pharmaxis Ltd						
DM Hanley	1,040,000	-	-	-	1,040,000	-
AD Robertson	2,080,000	-	-	-	2,080,000	-
B Charlton	1,600,000	-	-	-	1,600,000	-
CPH Kiefel	200,000	-	-	-	200,000	-
MJ McComas	-	200,000	-	-	200,000	-
Specified executives of the company						
WB Cowden	1,600,000	-	-	-	1,600,000	-
JF Crapper	-	960,000	-	-	960,000	120,000
DM McGarvey	960,000	-	-	-	960,000	720,000
GJ Phillips	-	500,000	-	-	500,000	62,500

(1) Opening balances have been restated to reflect the 8 for 1 share split that occurred prior to the company's initial public offering.
(2) Options granted to directors and WB Cowden are escrowed by the ASX until 10 November 2005.

Note 17 Director and executive disclosures (continued)

Share holdings

The numbers of shares in the company held during the financial year by each director of Pharmaxis Ltd and each of the specified executives of the company, including their personally-related entities, are set out below.

Name	Balance at the start of the year[1]	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
DM Hanley	320,000	-	840,000	1,160,000
AD Robertson	-	-	100,000	100,000
B Charlton	-	-	50,000	50,000
CPH Kiefel	-	-	500,000	500,000
MJ McComas	-	-	100,000	100,000
B H Smith (2)			-	-
C J Hillyard (3)			-	-
Specified executives of the company				
Ordinary shares				
WB Cowden	-	-	20,000	20,000
JF Crapper	32,000	-	40,000	72,000
DM McGarvey	-	-	45,000	45,000
GJ Phillips	-	-	20,000	20,000

(1) Opening balances have been restated to reflect the 8 for 1 share split that occurred prior to the company's initial public offering.

(2) BH Smith is associated with GBS Venture Partners Ltd, The Australian Bioscience Trust and Bioscience Ventures II. Perpetual Trustees Nominees as trustee of The Australian Bioscience Trust holds 20,245,000 shares at 30 June 2004 of which 1,045,000 were purchased at the initial public offering of the company in November 2003. GBS Venture Partners Ltd as trustee and manager of Bioscience Venture II holds 10,580,000 shares at 30 June 2004 of which 4,180,000 were purchased at the initial public offering of the company in November 2003.

(3) CJ Hillyard is associated with CM Capital Investments Pty Ltd, CM Capital Investment Trust No 3, CIBC Australia Fund LLC and the Australia Venture Capital Fund L.P. CM Capital Investments Pty Ltd as trustee of the CM Capital Investment Trust No 3 holds 11,189,044 shares at 30 June 2004 of which 3,989,044 were purchased at the initial public offering of the company in November 2003. CIBC Australia Fund LLC as general partner of the Australia Venture Capital Fund L.P. holds 3,635,956 shares at 30 June 2004 of which 1,235,956 were purchased at the initial public offering of the company in November 2003.

Loans to directors and executives

Nil

Note 17 Director and executive disclosures (continued)

Other transactions with directors and specified executives
Directors of Pharmaxis Ltd
Amount of other transactions with directors of Pharmaxis Ltd:

	2004	2003
	$	$
Amounts recognised as share issue expense		
Firm commitment and naming fee	45,000	-
Consulting fee	-	108,750

The Principals Funds Management Pty Ltd, a vehicle associated with DM Hanley and CPH Kiefel, was paid a fee of $45,000 by Wilson HTM Corporate Finance Ltd, the underwriter and lead manager of the Pharmaxis initial public offering as consideration for a firm commitment to subscribe for shares in the initial public offering.

The Principals Funds Management Pty Ltd was paid a consulting fee during the 2003 financial year for services provided by Mr CPH Kiefel in relation to the Series B private share issue to venture capital funds. Mr Kiefel was not a director at the time.

BH Smith is associated with GBS Venture Partners Ltd, The Australian Bioscience Trust and Bioscience Ventures II. Perpetual Trustees Nominees as trustee of The Australian Bioscience Trust received 45,000 shares from Wilson HTM Corporate Finance Ltd, the underwriter and lead manager of the Pharmaxis initial public offering as consideration for a firm commitment to subscribe for shares in the initial public offering. GBS Venture Partners Ltd as trustee and manager of Bioscience Venture II received 180,000 shares from Wilson HTM Corporate Finance Ltd, the underwriter and lead manager of the Pharmaxis initial public offering as consideration for a firm commitment to subscribe for shares in the initial public offering.

CJ Hillyard is associated with CM Capital Investments Pty Ltd, CM Capital Investment Trust No 3, CIBC Australia Fund LLC and the Australia Venture Capital Fund L.P. CM Capital Investments Pty Ltd as trustee of the CM Capital Investment Trust No 3 received 171,777 shares from Wilson HTM Corporate Finance Ltd, the underwriter and lead manager of the Pharmaxis initial public offering as consideration for a firm commitment to subscribe for shares in the initial public offering. CIBC Australia Fund LLC as general partner of the Australia Venture Capital Fund L.P. received 53,223 shares from Wilson HTM Corporate Finance Ltd, the underwriter and lead manager of the Pharmaxis initial public offering as consideration for a firm commitment to subscribe for shares in the initial public offering.

Specified executives of the company
None

Note 18 Commitments for expenditure

	2004	2003
	$	$
Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Payable no later than one year	**345,926**	351,064
Payable later than one year, not later than five years	**349,452**	699,340

Note 19 Reconciliation profit from ordinary activities after income tax to net cash inflow from operating activities

	2004 $	2003 $
Cash in the cash flow statements is reconciled to the related items in the balance sheets as follows:		
Cash and bank balances	**1,117,532**	1,391,707
Bank accepted commercial bills	**24,099,491**	5,992,216
	25,217,023	7,383,923
Reconciliation of net cash flows from operating activities to operating profit after income tax		
Profit/(loss) from ordinary activities after income tax	**(6,000,669)**	(1,467,789)
Depreciation and amortisation	**489,808**	255,734
Increase in income taxes payable	**-**	-
Deferred share issue expenses transferred to contributed equity	**-**	(48,892)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other debtors	**62,582**	(62,582)
(Increase)/decrease in inventories	**-**	-
(Increase)/decrease in other debtors and prepayments	**(63,958)**	(14,832)
(Increase)/decrease in security deposits	**(16,207)**	(243,800)
(Decrease)/increase in trade and other creditors and employee entitlements	**876,294**	414,258
Net cash inflows from operating activities	**(4,652,150)**	(1,167,903)

Note 20 Additional financial instruments disclosures

The directors consider the carrying amount of trade debtors, trade and other accounts payable and employee entitlements to approximate their net fair values.

The company does not have any significant exposure to major concentrations of credit risk.

All financial instruments are non interest bearing except for cash at bank, cash on deposit and bank accepted commercial bills.

Note 21 Employee option plan

The Pharmaxis Employee Option Plan ("EOP") was approved by shareholders in 1999 and amended by shareholders in June 2003. 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 are eligible to participate in the EOP, but do so at the invitation of the Board. The terms of option issues are determined by the Board. Options are generally granted for no consideration and vest equally over a four year period. 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 is set by the Board. Before the company listed on the Australian Stock 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. Since listing the exercise price is set as the average closing price of Pharmaxis Ltd shares on the Australian Stock Exchange on the five business days prior to the grant of the options.

Note 21 Employee option plan (continued)

No options have been exercised as at 30 June 2004.

There were 7,206,500 vested options at 30 June 2004 (4,440,000 at 30 June 2003). A total of 6,720,000 options are escrowed and cannot be exercised until 10 November 2005 (of which 5,620,000 are vested at 30 June 2004).

Set out below are summaries of options granted under the plan.

Grant date	Expiry date	Exercise price(1)	Balance at start of the year(1)	Issued during the year	Lapsed during the year	Balance at end of the year
Year ended 30 June 2004						
1 December 1999	30 November 2009	$0.1250	2,400,000			2,400,000
1 July 2000	30 June 2010	$0.1250	384,000			384,000
1 January 2001	31 December 2010	$0.1250	96,000			96,000
1 September 2001	30 August 2011	$0.3125	640,000			640,000
2 December 2001	30 November 2011	$0.1250	160,000			160,000
12 May 2003	30 June 2012	$0.3125	4,640,000			4,640,000
12 May 2003	30 November 2012	$0.3125	480,000			480,000
12 May 2003	30 April 2013	$0.3125	224,000		8,000	216,000
1 July 2003	30June 2013	$0.3125		960,000		960,000
4 July 2003	3 July 2013	$0.3125		200,000		200,000
9 December 2003	30 November 2013	$0.3760		500,000		500,000
25 April 2004	24 April 2014	$0.5080		75,000	15,000	60,000
4 June 2004	3 June 2014	$0.4260		15,000		15,000
			9,024,000	1,750,000	23,000	10,751,000
Year ended 30 June 2003						
1 December 1999	30 November 2009	$0.1250	2,400,000	-	-	2,400,000
1 July 2000	30 June 2010	$0.1250	384,000	-	-	384,000
1 January 2001	31 December 2010	$0.1250	96,000	-	-	96,000
1 September 2001	30 August 2011	$0.3125	640,000	-	-	640,000
2 December 2001	30 November 2011	$0.1250	160,000	-	-	160,000
12 May 2003	30 June 2012	$0.3125	-	4,640,000	-	4,640,000
12 May 2003	30 November 2012	$0.3125	-	480,000	-	480,000
12 May 2003	30 April 2013	$0.3125	-	224,000	-	224,000
			3,680,000	5,344,000	-	9,024,000

(1) Opening balances, exercise prices and comparative year option information have been restated to reflect the 8 for 1 share split that occurred prior to the company's initial public offering.

Note 22 Contingent liabilities

The company has received three separate Australian Government research grants under the R&D START Program, two of which have completed. The Government may require the company to repay all or some of the amount of a particular grant together with interest in either of the following circumstances:

a) the company fails to use its best endeavours to commercialize the relevant grant project within a reasonable time of completion of the project; or

b) upon termination of a grant due to breach of agreement or insolvency.

Note 22 Contingent liabilities (continued)

The company continues the development and commercialization of all three projects funded by the START Program.The total amount received under the START Program at 30 June 2004 was $3,198,839 of which $23,223 has been booked as deferred government research grants.

The company's bankers have issued a bank guarantee of $169,462 in relation to a rental bond for which no provision has been made in the accounts. This bank guarantee is secured by a security deposit held at the bank.

Note 23 Subsequent events

On 16 July 2004 the company announced the successful completion of patient enrolment for its Phase II trial of Bronchitol™ in the lung disease bronchiectasis. On 30 July 2004 the company announced the successful completion of patient enrolment for its 600 patient Phase III trial of Aridol™ in asthma.

Except for these items, no matter or circumstance has arisen since 30 June 2004 that has significantly affected, or may significantly affect:
(a) the company's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the company's state of affairs in future financial years.

Note 24 Earnings per share

	2004 Cents	2003 Cents
Basic and diluted earnings / (loss) per share	**(6.6)**	(2.8)

Diluted earnings per share is equivalent to basic earnings per share as the potential ordinary shares are anti-dilutive and have therefore not been included in the diluted earnings per share calculation.

	2004 Number	2003 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings / (loss) per share	**91,349,333**	52,283,475

Information concerning the classification of securities
Options
Options granted to employees under the Pharmaxis Ltd Employee Option Plan are considered to be potential ordinary shares for the purpose of calculating diluted earnings per share. Details relating to the options are set out in note 21.

Comparative information
The basic and diluted earnings / (loss) per share amounts disclosed for the year ended 30 June 2003 have been adjusted for the 8 for 1 split in ordinary shares made during the year ended 30 June 2004.