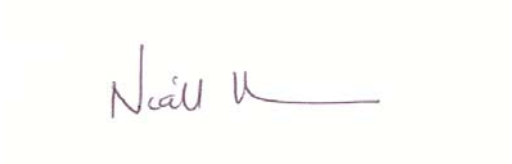
Company Announcements Office
Australian Stock Exchange Limited
4th Floor, 20 Bridge Street
Sydney
NSW 2000

24 December 2008

Dear Sir/madam,

Attached is the Annual report and Shareholder notice of meeting for Arana Therapeutics Limited.



Yours sincerely
Niall Henderson
Company Secretary

Arana Therapeutics Limited
Level 2 37 Epping Road
Macquarie Park
Sydney, NSW 2113
Australia
**P** + 61 2 8061 9900
**F** + 61 2 8061 9999
ABN 98 002 951 877

*3.1 Biographies*

Information about Mr Robin Beaumont and Mr Gordon Black is available in the Annual Report and on the website (www.arana.com) of the Company.

*3.2 Directors' recommendation*

All Directors, with Mr Robin Beaumont abstaining, recommend that shareholders vote in favour of the resolution to re-elect Mr Robin Beaumont as Director.

All Directors, with Mr Gordon Black abstaining, recommend that shareholders vote in favour of the resolution to elect Mr Gordon Black as Director.

**4. New Constitution**

*4.1 General*

It is proposed that the Company's Constitution be repealed and replaced with the Constitution tabled at the meeting and signed by the Chairman.

*4.2 Material Amendments*

The proposed new Constitution takes into account amendments to both the Corporations Act and ASX Listing Rules since the Constitution was adopted. As the changes affect numerous provisions in the Constitution, the Company proposes to repeal the current Constitution and adopt a new Constitution incorporating those changes rather than amending the current Constitution. The changes introduced under the new Constitution are mostly of an administrative nature and the Company believes that they will not have a significant impact on shareholders. The more significant changes are:

**(a) Sale of Unmarketable Parcels**

Schedule 4 of the Constitution which permits the Company to sell small parcels of shares with a market value of less than $500 (**Non-Marketable Parcel**) has been updated in line with current market practice.

The procedure in schedule 4 is in accordance with the ASX Listing Rules and provides that:

- the procedure may only be used once in any 12 month period;
- the Company must notify each holder of a Non-Marketable Parcel that it intends to use the procedure;
- each holder must have 6 weeks in which to advise the Company that the holder wishes to retain the shares, in which case they will not be sold;
- the power to sell lapses following the announcement of a takeover but may be started again after the close of the offers under the takeover;
- the Company or the purchaser must pay the costs of the sale; and
- the proceeds of the sale will not be sent until the Company has received any certificate relating to the securities (or is satisfied that the certificate has been lost or destroyed).

**(b) Direct voting**

Rule 5.15 of the proposed Constitution permits the Company, in the future, to enable shareholders to vote directly on resolutions to be considered at a general meeting by sending their votes to the Company prior to the meeting. This means members' votes can still be counted even when they cannot attend personally and do not appoint a proxy. Shareholders will continue to be entitled to appoint proxies if they so desire even if the Company decides to introduce direct voting at future meetings.

The rule allows the Directors to adopt rules and procedures to facilitate direct voting in the future.

**(c) Nomination of Directors**

It is proposed to require nominations for the election of any new Director to be provided to the Company at least 45 business days before a meeting at which Directors may be elected. The current provision requires nominations to be provided at least 35 business days before the meeting. The additional time will allow the Company adequate time to finalise notices of meetings after the deadline for nominations has elapsed and is permitted by the ASX Listing Rules. There is no change to the current 30 business day timeframe where the meeting is requisitioned by shareholders.



**(d) General**

There are a number of amendments that reflect the current practices required under both the Corporations Act and ASX Listing Rules. Amongst these amendments are changes in terminology and issue and settlement procedures for securities which have occurred since the constitution was last reviewed.

A copy of the proposed new Constitution, which shows the changes from the Company's existing constitution may be obtained for review from the Company's website www.arana.com or in paper form by contacting the Company Secretary on (02) 8061 9900.

*4.3 Directors' Recommendation*

The Directors of the Company consider that the new Constitution is appropriate and in the interests of shareholders. Accordingly the Directors recommend that shareholders vote in favour of the resolution to repeal the existing constitution of the Company and replace it with the new Constitution.

197GM12635



arana
therapeutics

# 2009 notice of meeting

Arana Therapeutics Limited ABN 98 002 951 877

Notice is given that the 2009 Annual General Meeting of shareholders of Arana Therapeutics Limited ABN 98 002 951 877 ("Arana" or the "Company") will be held at The Grace Hotel, 77 York Street, Sydney NSW 2000, Australia on Thursday, 26 February 2009, at 2.00 pm (Sydney time).

# Agenda

***1. Financial Statements and Reports***

To receive and consider the Annual Financial Report, the Directors' Report and the Auditor's Report of the Company for the year ended 30 September 2008.

***2. Remuneration Report***

To consider, and if thought fit, pass the following **advisory only resolution**:

"That the Remuneration Report for the financial year ended 30 September 2008 as disclosed in the Directors' Report be adopted."

***3. Re-election of Directors***

To consider and, if thought fit, pass the following resolutions as **ordinary resolutions**:

(a) "That, for all purposes, Mr Robin Beaumont, a Director retiring by rotation in accordance with article 6.3(b) of the Company's Constitution and, being eligible, be re-elected as a Director."

(b) "That, for all purposes, Mr Gordon Black, a Director appointed to the Board since the last Annual General Meeting and retiring in accordance with article 6.3(j) of the Company's Constitution, being eligible, be elected as a Director."

***4. New Constitution***

To consider, and if thought fit, pass the following resolution as a **special resolution**:

"That the existing constitution of the Company is repealed and that the constitution in the form tabled at the meeting and signed by the Chairman for the purposes of identification is adopted as the new constitution of the Company, with effect from the close of this meeting."

**Voting entitlements**

Regulation 7.11.37 and 7.11.38 of the Corporations Regulations 2001 permits the Company to specify a time, not more than 48 hours before the meeting, at which a "snap-shot" of shareholders will be taken for the purposes of determining member entitlement to vote at the meeting.

The Board has determined that a person's entitlement to vote at the Annual General Meeting will be the entitlement of that person set out in the register of shareholders as at 7.00pm (Sydney Time) on Tuesday, 24 February 2009. Transactions registered after that time will be disregarded in determining shareholders' entitlement to attend and vote at the Annual General Meeting.

**Proxies**

Please note that:

- a shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;
- a proxy need not be a member of the Company;
- shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes; and



- a body corporate appointed as a shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the shareholder's proxy.

If you wish to appoint a proxy, you should complete and return the attached Proxy Form in accordance with the instructions set out in that form.

To be valid, the Proxy Form must be received at the address or facsimile number set out below NOT LATER THAN 2pm (Sydney time) on Tuesday, 24 February 2009.

| | | |
|---|---|---|
| **In person:** | **Registered office:**<br><br>Arana Therapeutics Limited<br>Level 2, 37 Epping Road<br>NORTH RYDE NSW 2113<br>AUSTRALIA | **Share Registry:**<br><br>Computershare Investor Services Pty Limited<br>Level 2<br>60 Carrington Street<br>SYDNEY NSW 2000<br>AUSTRALIA |
| **By mail:** | Arana Therapeutics Limited<br>Level 2, 37 Epping Road<br>NORTH RYDE NSW 2113<br>AUSTRALIA | Computershare Investor Services Pty Limited<br>GPO Box 242<br>MELBOURNE VIC 3001<br>AUSTRALIA |
| **By fax:** | 61 2 8061 9999 | 61 3 9473 2555 |

**Corporate representative**

Any corporate shareholder who has appointed a person to act as its corporate representative at the Annual General Meeting should provide that person with a certificate or letter executed in accordance with the *Corporations Act 2001* authorising him or her to act as that company's representative (an Appointment of Corporate Representative form can be obtained if required). The authority may be sent to the Company or its share registry in advance of the Annual General Meeting or handed in at the Annual General Meeting when registering as a corporate representative.

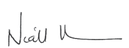
If you have any queries on how to cast your votes please call the Company's share registry, Computershare, on +61 3 9415 4000 during business hours.

**Accompanying Explanatory Memorandum**

An Explanatory Memorandum accompanies and forms part of this Notice of Meeting. Shareholders should read that document in full.

Capitalised terms in this Notice of General Meeting have the meanings set out in the Explanatory Memorandum.

**By order of the Board**



*Niall Henderson*
Company Secretary
8 December 2008



# Explanatory Memorandum

**2009 Annual General Meeting – 26 February 2009**

**Introduction**

This Explanatory Memorandum forms part of the Notice of Meeting for the Arana Therapeutics Limited Annual General Meeting to be held at The Grace Hotel, 77 York Street, Sydney NSW 2000, Australia on Thursday, 26 February 2009, at 2.00pm (Sydney time).

Information relevant to the business to be considered at the Annual General Meeting is provided in this Explanatory Memorandum and shareholders should read this document in full.

**1. Financial Statements and Reports**

The Directors have approved the audited financial statements of the Company and its controlled entities and place before the shareholders the income statements, balance sheets, statements of changes in equity, and cash flow statements of the Company and its controlled entities (**"Financial Statements"**), the reports of the Directors and Auditor (**"Reports"**) for the financial year ended 30 September 2008.

The Company is required to lay the Financial Statements and Reports before the Annual General Meeting but there is no requirement to include a resolution in respect of those documents.

As a shareholder, you are entitled to submit a written question to the Auditor prior to the Annual General Meeting provided that the question relates to:

- the content of the Auditor's Report; or
- the conduct of the audit in relation to the financial report.

All written questions must be directed to and received by the Company no later than 19 February 2009. The Company will then forward all written questions to the Auditor. Written questions may not be sent direct to the Auditor.

The Auditor will be attending the Annual General Meeting and will be available to answer questions from shareholders relevant to:

- the conduct of the audit;
- the preparation and content of the Auditor's report;
- the accounting policies adopted by the Company in relation to the preparation of the Financial Statements; and
- the independence of the Auditor in relation to the conduct of the audit.

In addition, shareholders will be given a reasonable opportunity to ask questions of the Directors and make comments on the Financial Statements. Once all resolutions have been considered there will be an opportunity for shareholders to make comments and ask questions about the management and the general affairs of the business.

**2. Remuneration Report**

The *Corporations Act 2001* requires that the Remuneration Report, as contained within the Directors' Report, be put to shareholders for adoption by way of non-binding vote.

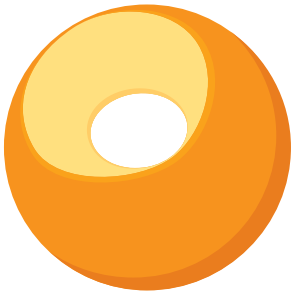
The Remuneration Report can be found in the Directors' Report section of the Annual Report.

Following consideration of the Remuneration Report, the Chairman will give shareholders a reasonable opportunity to ask questions about or make comments on the Remuneration Report.

**3. Re-election of Directors**

In accordance with ASX Listing Rule 14.4 and articles 6.3(b) and (j) of the Company's Constitution (**Constitution**), Directors Mr Robin Beaumont and Mr Gordon Black will retire at the 2009 Annual General Meeting and, being eligible, each offers himself for re-election in the case of Mr Beaumont and election in the case of Mr Black.

ANNUAL REPORT 07/08



arana
therapeutics®

# Leading Antibody Research

## Developing treatments for inflammatory disease and cancer

Arana Therapeutics is a biopharmaceutical company focussed on developing next generation antibody based drugs that will improve the lives of patients with inflammatory disease and cancer.

Our innovative engineering technologies, financial strength and management expertise are key factors in progressing our product pipeline. We have a significant track record of commercialising our technologies and have collaborations with GlaxoSmithKline (GSK), CSL, Kyowa Hakko Kirin (KHK) and licensing arrangements with Centocor (J&J) and Abbott Laboratories.

arana therapeutics®

# Contents



## In the last year the company has…

- Completed the divestment of non-core assets to fully focus on next generation antibodies
- Successfully completed the merger with EvoGenix to further enhance antibody engineering technologies and broaden our product pipeline
- Filed our first Investigational New Drug application (IND) for ART621 in rheumatoid arthritis
- Progressed ART621, our lead anti-inflammatory product, into Phase II clinical trials
- Established new commercial partnerships, including the agreement with Kyowa Hakko Kirin (KHK) to co-develop ART104 and a technology collaboration with Greenovation
- Selected a lead antibody candidate and commenced initial stage of manufacturing for ART010
- Achieved project milestones and success-based payments from progress under technology platform agreements with GSK, CSL and Vegenics
- Strengthened our balance sheet and sustained recurring revenues through international licensing and commercialisation deals - cash reserves of $181.6 million

## Looking forward – upcoming clinical milestones are…

- Results for the psoriasis Phase II trial for ART621 to be released in early 2009
- A Phase II rheumatoid arthritis (RA) trial for ART621 planned to commence in the fourth quarter 2008
- A Phase I trial for bone cancer molecule ART010 projected to start in the first quarter 2010
- Commence a Phase I/II trial in age-related macular degeneration (AMD) with PMX53 in the first half of 2009

# Highlights of 2008

JANUARY 2008

Receipt of the remaining funds of $17.7 million from the sale of shareholding in Domantis Ltd.

FEBRUARY 2008

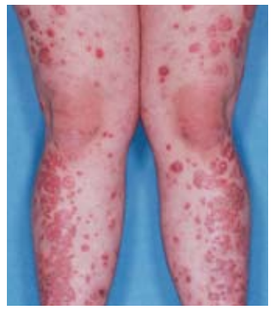
Sale of animal health division.

Major milestone achieved in project completion with partner CSL Limited – triggered a success-based payment by CSL.

CSL™

MARCH 2008

Commenced Phase II clinical trials in psoriasis for lead anti-TNF drug candidate ART621.



KYOWA KIRIN

APRIL 2008

Agreement with Kyowa Hakko Kirin (KHK) to co-develop a new anti-cancer drug for colorectal cancer (ART104). Upfront US$4 million payment received with additional milestone payments of up to US$4 million.

greenovation

JUNE 2008

Entered collaborative agreement with Greenovation to develop next generation anti-cancer antibodies.

Successful completion of second collaborative project with pharmaceutical partner CSL.

JULY 2008

New Sydney facility officially opened by the Hon Kim Carr, Federal Minister for Innovation, Industry, Science and Research.



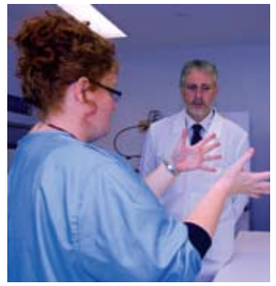

*The partnership with KHK is particularly exciting. We are co-developing ART104 as a new anti-cancer drug for the large and important colorectal cancer market.*


AUGUST 2008

Completed recruitment for Phase II psoriasis study for ART621.

SEPTEMBER 2008

Filed Investigational New Drug (IND) application with the U.S. Food and Drug Administration (FDA) for lead anti-inflammatory product ART621 in a rheumatoid arthritis indication.



*ART621 molecule*

circadian technologies limited

OCTOBER 2008

Successfully completed humanised and improved antibodies for Vegenics (a subsidiary of Circadian Technologies Ltd.).

Share buy-back announced.

Gordon Black appointed as Non-executive Director.

NOVEMBER 2008

ART621 able to commence clinical trials in rheumatoid arthritis under U.S. IND filing.

New Melbourne facilities officially opened by the Hon Gavin Jennings, Victoria's Minister for Innovation, Environment & Climate Change.

# Chairman and Acting CEO Report

Over the past year - since the creation of Arana Therapeutics - we have focussed on implementing the strategy communicated and we believe we have come a long way in delivering on that strategy. Central to that strategy is the consolidation of our operations and the focus of our resources on our core human therapeutic product pipeline.

## Recent Developments

We have made considerable progress in the clinic, and our lead compound ART621, a potential drug for the treatment of inflammatory diseases such as rheumatoid arthritis and psoriasis, is now in a Phase II clinical trial for psoriasis in Australia. We have also recently been granted an Investigational New Drug (IND) application with the U.S. Food and Drug Administration (FDA) and this means we can start a rheumatoid arthritis trial by the end of this year.

Both of these are very important steps, not only for the development of ART621 itself, but also for the development of Arana as a clinical stage company. With our strong development pipeline we look forward to conducting further international clinical trials in the coming years.

We have also been very active in further developing our commercial partnerships. Over the last year, we announced partnerships with major Japanese biotechnology company Kyowa Hakko Kirin (KHK) and Germany-based Greenovation. We have also successfully completed a second collaborative project with pharmaceutical partner CSL Limited, and completed the humanisation and optimisation of antibodies for Vegenics (a wholly owned subsidiary of Circadian Technologies Limited) cancer treatment programme.

The partnership with KHK is particularly exciting. We are co-developing ART104 as a new anti-cancer drug for the large and important colorectal cancer market. The agreement involved an upfront payment by KHK to Arana with additional milestones and royalties. Combining both parties' technologies improves the chances of the successful development of an effective anti-cancer drug. It also allows Arana to retain 50% ownership of the product while reducing the risk and cost of development.

Highlighting our focus on human health activities, during the year we sold Peptech Animal Health. By doing so we have an ongoing saving of annual losses estimated to be in the range $2.0 million to $3.0 million.

We recently announced the resignation of Dr John Chiplin as Chief Executive Officer. We thank John for his service and contribution to Arana. John led the company through a period of rapid change and significant progress, including the sale of Arana's Domantis shareholding, the successful merger last year of Peptech with EvoGenix and the rationalisation and focusing of the technology portfolio. The Board is now focussed on finding the best available person to lead Arana in its next stage of development from the pool of external and internal candidates.

We have also made some changes to the Board over the year, reflecting how we, as a company, have changed since the merger and the focus on our technologies and pipeline in human therapeutics. Greg Bundy, Bill Bartlett and Phil Jennings have left Arana's Board and we thank them for their contributions as directors. Phil Jennings continues to serve Arana as Chief Scientific Officer.

The Board has recently been strengthened with the appointment of Gordon Black. Gordon brings a wealth of experience, in particular through his connections in the biotechnology industry, and this experience will be particularly useful as we move into the next phase of growth for the company.

We are continuing the search for a permanent Chairman.

## Financials

We are in an excellent financial position – a financial position that has become ever more important in light of current market conditions. At our September financial year end we had a cash balance of $181.6 million. This has been built up by making successful strategic investments and through the commercialisation of our technologies.

The financial result this year was a loss of $4.1 million, compared to a profit of $133.4 million in the previous year, and reflects our transition to a clinical stage biotechnology company with associated increased research and development costs, in particular clinical trial costs. Last year's profit also included the profit from the sale of Arana's shares in Domantis Limited of $136.1 million.



## Outlook

The global economic environment is of course having an impact on Arana. We are however, in a fortunate position - in that we have the financial resources to weather this crisis. Our cash position is very strong. This means we will not be impacted by contracting equity and credit markets, unlike many other Australian companies. We have more than sufficient cash reserves and ongoing revenues to meet our research and development needs and this allows us to remain focussed on the areas we can control, in particular the development of our product pipeline and our technology capabilities.

Our industry is in the midst of a wave of unprecedented patent expiries at a time when there is an acknowledged scarcity of new products entering the market. Arana, with its strong financial resources, should not only weather the financial crisis but has the capabilities to be one of a number of leading innovative companies around the world with the potential to help bring new truly innovative products to the marketplace.

We recently announced an on-market share buy-back. In making this decision, the Board considered all available capital management options and believes that the share buy-back is a prudent use of the company's funds given the unprecedented economic conditions at this time.

Finally, we would like to thank all our employees for their support over the year. We have a first class team at Arana – a team that is focussed on developing world-class therapeutics and strong commercial outcomes. The year ahead offers significant commercial promise for Arana - we are at an exciting clinical stage, we have strong commercial partnerships and we are well funded to enable the delivery of commercial goals.

Robin Beaumont

Chairman

Steffen Nock

Acting Chief Executive Officer

## Facilities and Employees

Headquarters and clinical development activities are based in Sydney, with technology development facilities in Melbourne and business development facilities in San Francisco, California.

As part of the creation of the new company and to ensure Arana's scientists have access to the best facilities, all three locations (Sydney, Melbourne and San Francisco) have relocated during the year.

The Company currently employs 81 individuals.




# Arana's Product Pipeline

Arana has a pipeline of biological therapeutic compounds at various stages of discovery and development. The pipeline has products that target high value markets for the treatment of inflammatory disease and cancer.

### ARANA'S PRODUCT PIPELINE

| CANDIDATE | DISEASE | DISCOVERY | PRE-CLINICAL | PHASE I | PHASE II |
|---|---|---|---|---|---|
| | **INFLAMMATION** | | | | |
| ART621 | RA, Psoriasis | | | | |
| PMX53 | AMD | | | 2009 | |
| ART123 | Psoriasis | | 2009 | | |
| | **CANCER** | | | | |
| ART010 | Bone loss | | | 2010 | |
| ART104 | Colorectal cancer | | | 2011 | |
| ART150 | Lung cancer, melanoma | | 2009 | | |
| ART101 | Colorectal cancer | | 2010 | | |

Dates are estimated commencement of next major milestone.

Pre-clinical commences with start of GMP manufacture.

In progress

Completed

## The Antibody Sector

*Arana has a suite of technologies that enables it to create and improve protein based therapeutics such as antibodies. These technologies include its Superhumanisation™, Synhumanisation® and EvoGene™ proprietary processes. A key objective is to generate highly potent therapeutic molecules with reduced immunogenicity.*

*Arana uses its technologies to decrease development timelines and enhance product profiles for clinical use; with a view to enhancing the welfare of patients and thus the success of the product and creating returns for the company's shareholders.*

*An issue with the use of antibodies and other therapeutic proteins is the risk of being recognised as "foreign" material when injected into the body thus provoking an immune reaction ("immunogenicity"). Immunogenicity in the patient can result in a loss of effectiveness of the therapy or unwanted side effects. Arana's technologies are well suited to addressing these issues as well as enhancing the potency of the molecule.*

*Arana not only generates its own novel antibodies and protein therapeutic drugs but also uses its technologies to further enhance drugs directed against well-proven disease targets that would otherwise be blocked from development by patents held by competitors. This helps to reduce the risks associated with the development of Arana's products.*

*Arana's product pipeline targets both inflammatory disease and cancer – both of which are multi-billion dollar markets. Arana's anti-inflammatory portfolio includes products being developed for rheumatoid arthritis, psoriasis and age-related macular degeneration (AMD). Arana's development products also target a broad range of common cancers including lung and colorectal cancers, melanoma, other solid tumours and leukaemia as well as cancer spreading to the bone.*

# Inflammation franchise

## Background

Inflammation is a response of the body to injury, disease or irritation, often characterised by redness, swelling and pain. Inflammation plays a key role in many human diseases such as rheumatoid arthritis (RA), psoriasis, ankylosing spondylitis and inflammatory bowel disease. The commercial market for effective anti-inflammatory treatments is large, and is estimated to reach in excess of US$20 billion by 2012.

Tumour Necrosis Factor alpha (TNF) is a protein which is known to play a key role in the development of certain inflammatory diseases and is the target of Arana's lead anti-inflammatory compound ART621. TNF has proved to be a valuable target because elevations in its levels trigger a cascade effect, causing the release of many different inflammatory molecules. Blocking the effects of TNF can block the cascade effects associated with inflammatory disease.

## ART621 - a Phase II asset

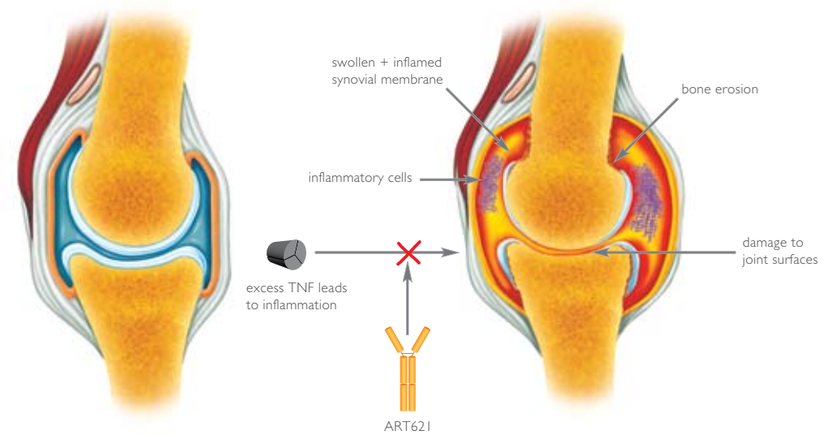
ART621 is a new type of therapeutic protein which incorporates a domain antibody (dAb). Domain antibodies exhibit the target binding properties of a full-sized antibody, but are considerably smaller and may have advantages in relation to production, immunogenicity and penetration of diseased joints and tissues.

A number of anti-TNF products (Humira®, Remicade®, Enbrel® and Cimzia®) are currently marketed for the treatmen0t of RA. Unlike earlier treatments, such as aspirin, that deal with the signs and symptoms, these anti-TNF products act to prevent against further progression of the disease.

Alternative antibody-based treatments are still needed because some patients have stopped responding to a particular anti-TNF antibody after prolonged use, yet respond well when treated with an alternative anti-TNF product.

In animal models of RA, ART621 matched the performance of a leading marketed anti-TNF antibody and also displayed favourable properties. It has successfully progressed through Phase I clinical trials and a Phase II trial in psoriasis is currently in progress. Recruitment for this study was completed in August 2008, and results are expected to be reported in the first quarter of 2009.

In early November ART621 successfully passed review of its RA Investigational New Drug (IND) application, and is proceeding with its Phase II study in RA.




ART621 BLOCKING TNF



## PMX53 - in pre-clinical development

Complement 5a (C5a) is a naturally occurring protein that is implicated in many human inflammatory diseases. PMX53 is a C5a inhibitor. Arana has developed and tested several formulations of PMX53 in animal models of age-related macular degeneration (AMD), psoriasis and osteoarthritis. Arana has selected AMD as the lead clinical indication for PMX53. A clinical trial is expected to commence in the first half of 2009 subject to the successful completion of ongoing pre-clinical dose-ranging studies. Data from a long term pre-clinical osteoarthritis study are also expected to be available in early 2009.

## ART123 - a new product in the pipeline

Arana has recently developed a new antibody candidate ART123, also targeting inflammatory diseases. In September 2008, Arana announced the new antibody targeting the interleukin 12/23 (IL12/23) pathway. The IL12/23 pathway is important in human inflammatory disease and has been clinically validated in psoriasis.

ART123 was produced using Arana's proprietary antibody engineering technologies. Patents have been filed around the novel mechanism of action of ART123, which has demonstrated efficacy in a pre-clinical psoriasis model. Pre-clinical safety studies are expected to commence in 2010.

# Cancer franchise

## Background

Arana has a number of anti-cancer compounds in its development programme. Arana believes that the driver for growth in the treatment of cancer will come from antibody products.

## ART010 - in pre-clinical development for cancer-related bone loss

ART010 is aimed at treating one of the major debilitating side-effects of cancer known as cancer-related bone loss.

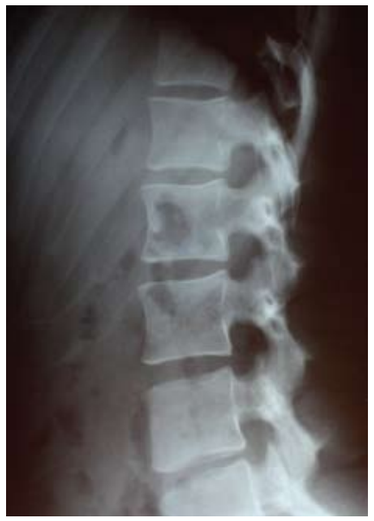
Seventy percent of patients with advanced breast or prostate cancer develop secondary cancers in the bone, resulting in approximately 300,000 new cases each year in the U.S. alone. The annual cost of adjunct treatment to counter the effects of bone erosion, fragility and pain is estimated to be in excess of US$1.3 billion.

In humans, a protein called osteoprotegerin (OPG) protects against the loss of bone mass associated with osteoporosis and bone cancer.

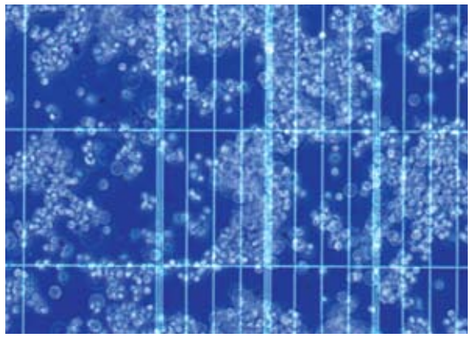
ART010 is an engineered version of OPG, produced by the application of Arana's propriety technology EvoGene™, designed to improve its therapeutic potential. ART010 is being developed to inhibit the growth of cancers in bone and reduce the suffering of patients where tumours have spread to bone.

Arana expects to complete pre-clinical work and to commence clinical trials in the first quarter of 2010. Arana has filed patent applications for ART010, which, subject to grant, will provide patent protection for the product until 2025.

The target of ART010 - RANKL - has recently been clinically validated as a target by the success in a pivotal Phase III clinical trial of denosumab, currently in development by Amgen. The denosumab trial provided the first clinical validation that inhibition of RANKL reduces fracture risk. Reduction of fracture risk is the ultimate aim of bone loss therapies.



*Characteristic cancer-related X-ray changes*



*Death of human colon cancer cells by ART104*

## ART104 – in co-development with Kyowa Hakko Kirin (KHK)

ART104 is an antibody in development for the treatment of colorectal cancer. It has been shown to improve the effects of standard chemotherapy in a mouse model of colorectal cancer and Arana expects that it may also be effective for the treatment of other solid tumours. Arana is co-developing the antibody with the major Japanese biotechnology company KHK.

ART104 continues to progress in its development with KHK's technology now being applied to further improve the cancer killing potential of the antibody. The joint development of ART104 with KHK continues to make good progress with the agreed timelines and milestones being met by both parties.

## ART150 – in pre-clinical development

ART150 is an antibody under development for the treatment of lung cancer and melanoma, markets with a potential value of between US$1.0 billion – US$2.0 billion.

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Arana expects to select a validated and finalised candidate antibody to take forward into the cell line construction phase of GMP manufacture in the first quarter of 2009.

## Earlier stage anti-cancer compounds

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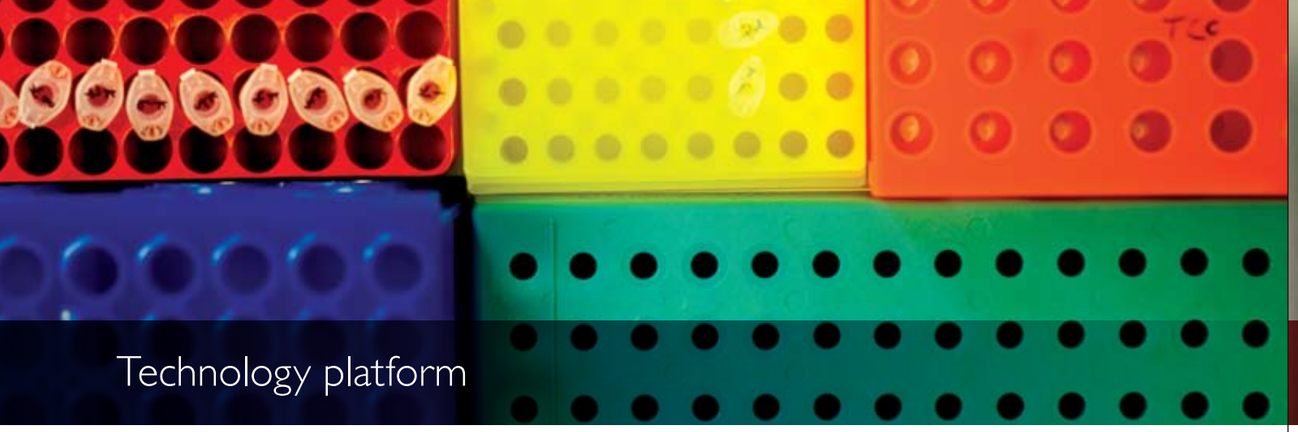

# Technology platform

Arana has a powerful protein engineering technology platform that incorporates the company's Superhumanisation™, Synhumanisation® and EvoGene™ technologies. Application of one or more of these technologies can transform lead proteins, including antibodies, into potent, safe drug candidates.

## Superhumanisation™ & Synhumanisation®

Superhumanisation™ compares the structure of the target-binding region of a mouse and a human antibody. It then converts the mouse antibody, which would otherwise be rejected if administered to humans, into a 'humanised' form, which can be given safely to patients.

By starting with a rodent antibody and 'humanising' it, the Superhumanisation™ technology retains the important properties of the starting antibody more readily than competing approaches. Superhumanisation™ is a thoroughly validated, reliable and safe method to transform mouse antibodies into high-quality therapeutic product candidates and has been successfully used to modify 12 antibodies, with no failures to date.

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Humanisation typically results in a decreased binding of the antibody to its target resulting in a lower potency. This can be restored or greatly improved, by application of Arana's EvoGene™ technology.

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The process has been extensively validated via application to our internal drug pipeline and co-developed products.

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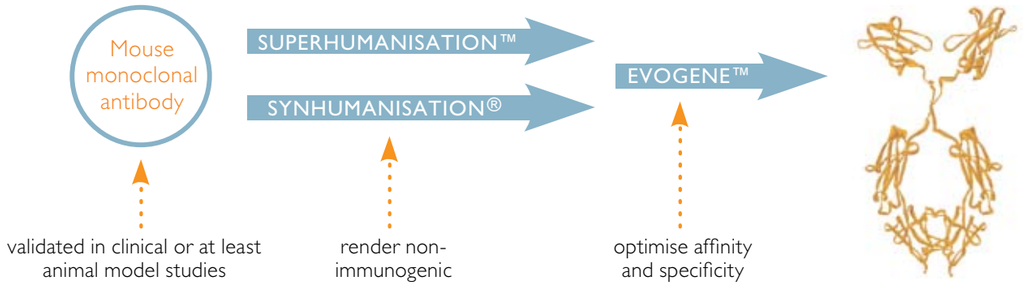
INTEGRATED HUMANISATION AND OPTIMISATION






# Intellectual property

Arana's patent position reflects the company's focus on ensuring market exclusivity for lead therapeutic products in development. The company continues to pursue an aggressive policy of patenting discoveries and maximising patent coverage, with continual assessment of our own inventions and those of others in related areas that may impact on commercialisation of Arana's products.

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- PMX53 compound in Europe
- Use of PMX53 in the treatment of ulcerative colitis in the U.S.
- ART101 in Australia

## Patent families – income generation

Several of Arana's patent families form the basis of the company's income. Some of the patents listed below relate to anti-TNF (tumour necrosis factor), antibody humanisation by Superhumanisation™ and affinity maturation by EvoGene™ technologies.

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In the course of developing therapeutic products, Arana aims to prosecute existing patents and file new applications. Some key patents relating to our lead projects including ART621, ART010, ART150, ART104 and PMX53 are listed below.

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| PCT/US00/19589 | Anti-tumour antibodies, proteins and uses thereof | 18 July 2000 |
| PCT/AU98/00490 | Cyclic agonists and antagonists of C5a receptors and G-protein-coupled receptors | 25 June 1998 |

# Senior Management Team

**Steffen Nock**
PhD
*Acting Chief Executive Officer*

Steffen Nock joined Arana in April 2005. He is the former President of Absalus Inc., having previously participated in the foundation of Zyomyx, a biotechnology company in Hayward, U.S., exploiting antibody-based proteomics technologies. Prior to this, Steffen held scientific research positions at Stanford University, U.S., and in Germany. He was one of four founders of Absalus that was acquired by Arana in April, 2005, when he became President of the company's U.S. operation.

On 12 November 2008 Steffen was appointed Acting CEO.

**Rob Crombie**
BA Mod Hons; PhD

*Vice President, Business Development – Technology*

Rob Crombie joined Arana in April 2004 and is responsible for marketing the company's technology and products, establishing collaborative relationships and strategically in - and out-licensing technology assets. He comes from a senior business development post with ML Laboratories PLC, UK and has over 10 years of business development experience in the antibody sector. He had previously managed a technology development team in Cobra Therapeutics Ltd and was responsible, at ML Laboratories, for licensing an antibody production system to several top pharmaceutical and biotech companies.



**David Fuller**
MBBS, B.Pharm (Hons)
*Chief Medical Officer*

David Fuller joined Arana in October 2007. David is dually qualified in medicine and pharmacy with more than 20 years international experience in clinical development and commercialisation of new medicines. He has previously worked at Genzyme, Orphan Medical and CeNeS in a number of senior product development roles.

**Niall Henderson**
BAcc, CA, ACA, AICD

*Chief Financial Officer and Company Secretary*

Niall Henderson joined Arana in December 2001. His career encompasses periods both in the accounting profession (with Deloitte in Glasgow and Sydney) and in commerce. He has over 25 years commercial accounting experience, most of which has been spent with the international TNT transport group. He held a number of senior financial positions both in Australia and in Europe both at a corporate and divisional level. He has been significantly involved in mergers and acquisitions and most recently held the position of Director and Chief Financial Officer of TNT Australia, the major express and logistics subsidiary of the TNT Post Group.

**Cliff Holloway**
BPharm, PhD

*Vice President, Business Development – Products*

Cliff Holloway joined Arana in January 2006. Following his early career in clinical research with Eli Lilly and Novartis, Cliff has since held several business development positions in drug discovery platform, software technology and biopharmaceutical companies, including for Biosym Technologies, Molecular Simulations (Accelrys), Superscape and Pharmacopeia Drug Discovery Inc. With over 20 years business experience Cliff has been instrumental in the direction and expansion of these companies' operations in the U.S., Europe and Asia.

**Phil Jennings**
BSc, BVSc (Hons), PhD, FTSE

*Chief Scientific Officer*

In addition to having over 25 years of experience in science and science management, Phil also brings a depth of practical experience in patenting, intellectual property, biological and molecular science commercialisation, and the resolution of commercial/licensing disputes. Author of a number of pioneering papers in biotechnology, Phil is also an inventor of important granted patents and patent applications (Gene Shears, Betabiotic and Arana). Prior to joining Arana, Phil was a Chief Research Scientist, Corporate Fellow and a Chief of Division at the CSIRO.

# Board of Directors

**Robin Beaumont**
Dip. App. Chem., MBA
*Independent*
*Non-executive Chairman*

Robin Beaumont joined Arana's board in August 2007 and was appointed Chairman on 1 November 2007.

Robin was Managing Director of the Advent Venture Capital group until 1998 and represented Advent's interests as a director of five investee companies, including Primary Health Care Limited and the Ayers Rock Resort Company. Prior to joining Advent, he had more than 10 years of strategy consulting experience, after holding senior management positions in the Pacific Dunlop group. He is currently the Chairman of Select Vaccines Limited (director since 2005) and was Chairman of the Cooperative Research Centre for Diagnostics until June 2007.Robin was a Non-executive Director of EvoGenix Limited until its merger with Peptech Limited (the previous name of Arana Therapeutics Limited).

During the last three years he has also served as a director of listed companies: Gropep Limited (1999 to 2006) and EvoGenix Limited (2004 to August 2007).

He is a member of the Remuneration Committee and Audit and Compliance Committee.

**Gordon Black**
BSc, MBA
*Non-independent*
*Non-executive Director*

Gordon Black joined Arana's board in October 2008. Gordon is actively involved in the development of the Australian life sciences industry. He is currently Managing Director and co-founder of BioFusion Capital (a significant shareholder in Arana), a specialist life sciences venture capital fund and early stage investor in EvoGenix Limited. Gordon also co-founded East West Capital Limited in 2005, a specialist funds management company, investing in Australian listed equities for Australian and international investors.

Previously, Gordon worked in the U.S. and Asia Pacific with Merrill Lynch, New York in capital markets and with Du Pont in the global chemical industry in the U.S. head office Wilmington, Delaware, as Senior Analyst Special Projects and later in Corporate Planning supporting the Du Pont global business units operating in the Asia Pacific region.

After returning to Sydney in 1994, Gordon joined the ASX listed property investment company Ipoh Limited. As Director - Corporate Services, he reported to the Managing Director and was responsible for strategic planning, capital raising and investment prior to the company being acquired by the Government Investment Corporation of Singapore in 2001.



**Lincoln Chee**
MBBS, FRCS, FAMS, FAAO-HNS
*Non-independent*
*Non-executive Director*

Lincoln Chee joined Arana's board in April 2007. He brings to the board more than 18 years of healthcare experience. During his career he has been a consultant surgeon with Singapore General Hospital and a clinical lecturer at the National University of Singapore.

He is currently Chief Executive of Quality HealthCare Asia Limited, Hong Kong's leading healthcare group listed on the Hong Kong Stock Exchange (director since March 2003).

Dr Chee is also a member of the Health Taskforce Business Professional Federation of Hong Kong and member of the Government of HKSAR Health and Welfare steering committee on electronic medical records.

He is a member of the Audit and Compliance Committee.

**Chris Harris**
B.Ec, FCPA, FAICD
*Independent*
*Non-executive Director*

Chris Harris joined Arana's board in August 2007. Chris is a former Group Managing Director and Chief Executive Officer of pharmaceutical company F.H. Faulding & Co. Limited. His earlier roles with the same company were as Finance Director and Chief Operating Officer. Since leaving Faulding in 1993, he has had a distinguished record of leadership as a director and chair of many major Australian companies. Chris is currently Chair of Argo Investments Limited (director since 1994), and Non-executive Director of Australian Vintage Limited (director since 1994), Adelaide Brighton Limited (director since 1995) and JM Financial Group Limited (director since 1999).

Chris was formerly the Non-executive Chairman of EvoGenix Limited (2004 to August 2007) until its merger with Peptech Limited (the previous name of Arana Therapeutics Limited).

He is Chairman of the Audit and Compliance Committee and a member of the Remuneration Committee.

**George Jessup**
MBBS, MBiomed Eng MBA
*Non-independent*
*Non-executive Director*

George joined Arana's board in November 2007. George is active in investing in and providing strategic direction to biotechnology companies. He is co-founder and Managing Director of Start-up Australia, which manages institutional funds and invests in life science companies. Start-up Australia has played a key role in assisting numerous companies move from start-up to becoming significant players in their market, achieving an initial public offering or mergers and acquisitions. These companies now have operations in Australia, North America, China, India and South Africa. George has extensive experience in senior management roles in the medical device and pharmaceutical industries in the U.S. and Australia, including an appointment in the U.S. as Global Director of Medical Affairs of the Medical Device Division of an international pharmaceutical company (American Cyanamid Company, later acquired by Wyeth).

George was formerly Non-executive Director of EvoGenix Limited (2001 to August 2007) until its merger with Peptech Limited (the previous name of Arana Therapeutics Limited) and was a Non-executive Director of Bionomics Limited (2005 to April 2008).

He is Chairman of the Remuneration Committee and a member of the Audit and Compliance Committee.

# Scientific Advisory Board

In June 2007 Arana established a scientific advisory board. External board members are:

**Sir Gregory Winter** PhD, CBE, FRS, FMedSci, HonFRCP,
**Medical Research Council, Cambridge, UK**

Sir Gregory Winter is Deputy Director of the Medical Research Council's Laboratory of Molecular Biology (LMB). He is a pioneer of protein engineering. In particular he developed technologies for making humanised antibodies and also for making human antibodies in bacteria (by use of antibody repertories and phage display technologies). Most of the therapeutic antibodies on the market were developed using methods devised by him. He was a founder and director of Cambridge Antibody Technology, a founder and director of Domantis and served as a director of Peptech between 2001-2003.

Sir Gregory has received numerous international prizes and awards, and in 2004 was knighted for services to Molecular Biology.

**Professor Mark Hogarth** PhD
**The Burnet Institute, Melbourne**

Professor Hogarth is regarded as a world leader in the study of autoimmune inflammation, with more than 100 scientific papers published. During his doctoral training Professor Hogarth was one of the first investigators to successfully produce monoclonal antibodies in Australia. He is Head of the Centre for Immunology at the Burnet Institute.

Professor Hogarth is a Senior Principal Research Fellow of the NHMRC. His many achievements have been recognised by the Australian Academy of Science who awarded him the Gottschalk Medal for excellence.

Professor Hogarth, who has published widely in peer reviewed journals, holds editorial positions on national and international scientific journals and has served on national grant committees.

**Professor Sir Ravinder Maini** FRCP, FMedSci,
**FRS Imperial College, London, UK**

Sir Ravinder has a long and distinguished medical career and his research interests encompass immunotherapy, autoantibody production, measurement and pathogenesis. He is currently Emeritus Professor of Rheumatology at Imperial College, University of London, UK, Trustee of the Kennedy Institute of Rheumatology, London, UK and Emeritus Honorary Consultant Physician at Charing Cross Hospital, Hammersmith Hospitals Trust, London, UK.

He is a Fellow of the Academy of Medical Sciences and the Royal Society, was knighted in 2003 and is a co-recipient of the Crafoord Prize from the Swedish Academy of Sciences in 2000 and the Albert Lasker Clinical Medical Research Award (U.S.) in 2003.

He is a member of a number of prestigious international societies, committees and clubs, co-edits Arthritis Research and Therapy and has published over 400 articles in refereed journals and invited reviews.

**Till Medinger** MA, DPhil, Oxford
**Member of Institute of Directors, UK**

Dr Medinger brings a wealth of international public company experience to the scientific advisory board. His distinguished international career has spanned R&D, licensing and acquisition, strategic planning and marketing management in the pharmaceutical industry including the launch of several products that achieved 'blockbuster' global success.

He served as Senior Vice President for Corporate Strategy at AstraZeneca Plc and prior to that had a long and distinguished career with Zeneca and ICI Pharmaceuticals, directing business and marketing operations internationally. He was President of the Association of the British Pharmaceutical Industry from 1994 to 1996. His service on boards includes both European and the International Pharmaceutical Industry Federations, as a Non-executive Director of Peptech Ltd, an alternate Director of Domantis Ltd, Chairman of PhotoBiotics Ltd and Director of Datapharm Communications Ltd, Polytherics Ltd and ML Laboratories PLC. He has also acted as a corporate consultant to a number of emerging high-tech companies within the U.S. and the UK.





# Contents

# Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arana Therapeutics Limited and the entities it controlled at the end of, or during, the year ended 30 September 2008.

## Directors

The names of the directors of the company in office at the date of this report are as follows:

**R. Beaumont**
(Independent Non-executive Chairman, appointed Chairman 1 November 2007)

**G. Black**
(Non-independent Non-executive Director, appointed 9 October 2008)

**L. Chee**
(Non-independent Non-executive Director)

**C. Harris**
(Independent Non-executive Director)

**G. Jessup**
(Non-independent Non-executive Director, appointed 1 November 2007)

Directors who held office during the financial year but not at the date of this report are as follows:

**B. Bartlett**
(Independent Non-executive Director, resigned 28 December 2007)

**M. Bridges**
(Independent Non-executive Chairman, resigned 1 November 2007)

**G. Bundy**
(Independent Non-executive Director, resigned 11 December 2007)

**J. Chiplin**
(Managing Director and Chief Executive Officer, resigned as Managing Director 5 November 2008)

**P. Jennings**
(Executive Director, resigned 14 February 2008 as Director, but continues as Chief Scientific Officer)

All directors held their position as a director throughout the entire year and up to the date of this report, unless specified otherwise above.

## Results

The consolidated net loss after tax for the year was $4,092,000 (2007 : profit $133,414,000).

## Principal activities

The principal activities of the Group during the year were to undertake the commercialisation of research, development, investment in, and licensing of technology, and the formulation, manufacture and marketing of protein-based products for the pharmaceutical industry.

## Review of operations

Significant changes in the state of affairs of the Group during the year were as follows:

### FINANCIAL POSITION

The financial result this year was a loss of $4.1 million, compared to a profit of $133.4 million in the previous year, and reflects our transition to a clinical stage biotechnology company with associated clinical R&D costs. Last year's profit included the gain from the sale of Arana's shares in Domantis Limited of $136.1 million.

### ARANA'S PRODUCT PIPELINE

Arana has a pipeline of biological therapeutic compounds at various stages of discovery and development. The pipeline has products that target high value markets for the treatment of inflammatory disease and cancer.

### THE ANTIBODY SECTOR

In recent years antibody technologies have transformed the treatment of inflammatory disease and cancer and Arana scientists are at the forefront of these exciting developments.

Arana is well positioned in a significant and growing market for therapeutic antibodies (currently estimated at US$20 billion with forecasts of reaching US$30 billion in the next six years), with its focus on inflammatory disease and cancer. In 2008 the market for psoriasis and rheumatoid arthritis is estimated to be greater than US$12 billion with the antibody anti-cancer market estimated to be greater than US$7 billion.

One of Arana's key strengths is the synergy between its therapeutic development programme and its protein engineering technologies. The Group's technology platform includes its Superhumanisation™, Synhumanisation®, and EvoGene™ proprietary processes. These technologies are used to transform lead proteins, including antibodies, into safe, potent therapeutic candidates.

Arana creates value not only by optimising its own therapeutic pipeline, but also by generating immediate revenues and potential future licensing and milestone income from optimising the pipeline products of other biotechnology and pharmaceutical companies, such as CSL and GSK.



### INFLAMMATION FRANCHISE

#### Background

Inflammation is a response of the body to injury, disease or irritation, often characterised by redness, swelling and pain. Inflammation plays a key role in many human diseases such as rheumatoid arthritis (RA), psoriasis, ankylosing spondylitis and inflammatory bowel disease. The commercial market for effective anti-inflammatory treatments is large, and is estimated to reach in excess of US$20 billion by 2012.

Tumour Necrosis Factor alpha (TNF) is a protein which is known to play a key role in the development of certain inflammatory diseases and is the target of Arana's lead anti-inflammatory compound ART621. TNF has proved to be a valuable target because elevations in its levels trigger a cascade effect, causing the release of many different inflammatory molecules. Blocking the effects of TNF can block the cascade effects associated with inflammatory disease.

#### ART621 - a Phase II asset

ART621 is a new type of therapeutic protein which incorporates a domain antibody (dAb) and is the first compound incorporating a domain antibody to be used in human trials. Domain antibodies exhibit the target binding properties of a full-sized antibody, but are considerably smaller and may have advantages in relation to production, immunogenicity and penetration of diseased joints and tissues.

A number of anti-TNF products (Humira®, Remicade®, Enbrel® and Cimzia®) are currently marketed for the treatment of RA. Unlike earlier treatments, such as aspirin, that deal with the signs and symptoms, these anti-TNF products act against further progression of the disease.

Alternative antibody-based treatments are still needed because some patients have developed resistance and have stopped responding to a particular anti-TNF antibody after prolonged use, yet respond well when treated with an alternative anti-TNF product.

In animal models of rheumatoid arthritis, ART621 matched the performance of a leading marketed anti-TNF antibody and also displayed favourable properties. It has successfully progressed through Phase I clinical trials and a Phase II trial in psoriasis is currently in progress. Recruitment for this study was completed in August 2008, and results are expected to be reported in the first quarter of 2009.

ART621 has successfully passed review of its rheumatoid arthritis Investigational New Drug (IND) application and is proceeding with its Phase II study in rheumatoid arthritis.

#### PMX53 - in pre-clinical development

Complement 5a (C5a) is a naturally occurring protein that is implicated in many human inflammatory diseases. PMX53 is a C5a inhibitor. Arana has developed and tested several formulations of PMX53 in animal models of age-related macular degeneration (AMD), psoriasis and osteoarthritis. Arana has selected AMD as the lead clinical indication for PMX53 and a clinical trial is expected to commence in the first half of 2009.

The AMD clinical trial is expected to start in the first half of 2009, subject to the successful completion of ongoing pre-clinical dose-ranging studies. Data from a long term pre-clinical osteoarthritis study are also expected to be available in early 2009.

#### ART123 - a new product in the pipeline

Arana has recently developed a new antibody candidate ART123, also targeting inflammatory diseases. In September 2008, Arana announced the new antibody targeting the interleukin 12/23 (IL12/23) pathway. The IL12/23 pathway is important in human inflammatory disease and has been clinically validated in psoriasis.

ART123 was produced using Arana's proprietary antibody engineering technologies. Patents have been filed around the novel mechanism of action of ART123, which has demonstrated efficacy in a pre-clinical psoriasis model. Pre-clinical safety studies are expected to commence in 2010.

### CANCER FRANCHISE

#### Background

Arana has a number of anti-cancer compounds in its development programme. Arana believes that the driver for growth in the treatment of cancer will come from antibody products.

#### ART010 - in pre-clinical development for cancer-related bone loss

ART010 is aimed at treating one of the major debilitating side-effects of cancer known as cancer-related bone loss.

Seventy percent of patients with advanced breast or prostate cancer develop secondary cancers in the bone, resulting in approximately 300,000 new cases each year in the U.S. alone. The annual cost of adjunct treatment to counter the effects of bone erosion, fragility and pain is estimated to be in excess of US$1.3 billion.

In humans, a protein called osteoprotegerin (OPG) protects against the loss of bone mass associated with osteoporosis and bone cancer.

ART010 is an engineered version of OPG, produced by the application of Arana's proprietary technology EvoGene™, designed to improve its therapeutic potential. ART010 is being developed to inhibit the growth of cancers in bone and reduce the suffering of patients where tumours have spread to bone.

Arana expects to complete pre-clinical work and to commence clinical trials in the first quarter of 2010. Arana has filed patent applications for ART010, which, subject to grant, will provide patent protection for the product until 2025.

ART010 has recently been clinically validated as a target by the success in a pivotal Phase III clinical trial of denosumab, currently in development by Amgen. The denosumab trial provided the first clinical validation that inhibition of RANKL (the target mechanism for ART010) reduces fracture risk. Reduction of fracture risk is the ultimate aim of bone loss therapies.

# Directors' Report

## ART104 - in co-development with Kyowa Hakko Kirin (KHK)

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## Patent families & product development

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| PCT/GB2005/001805 | Monoclonal antibody SC104 and derivative thereof specifically binding to a sialyltetraosyl carbohydrate as a potential anti-tumour therapeutic agent | 11 May 2005 |
| PCT/AU05/001877 | Osteoprotegerin variant proteins | 13 December 2005 |
| PCT/US00/19589 | Anti-tumour antibodies, proteins and uses thereof | 18 July 2000 |
| PCT/AU98/00490 | Cyclic agonists and antagonists of C5a receptors and G-protein-coupled receptors | 25 June 1998 |

# Directors' Report

## Financial overview

### A) INCOME STATEMENT

The net loss for the year was $4.1 million (2007 profit $133.4 million). The current year result includes twelve months of the EvoGenix operations following the merger in August 2007, compared with one month in 2007. The 2007 result includes the $136.1 million gain on the sale of the investment in Domantis.

Total revenues for the year were $39.5 million (2007 $34.6 million). Revenues from royalties of $18.2 million (2007 $16.6 million) have continued to increase, but have been impacted by the appreciating Australian dollar against the US dollar, the increase in US dollar terms was 20%. Sales and licensing income was $7.5 million (2007 $8.1 million) the decrease is due to non-recurring income generated from the platform technology contracts in 2007. Other income of $3.5 million (2007 $136.7 million) includes $3.2 million of grant income recognised under the P3 programme and $0.4 million of realised foreign exchange gains. The 2007 Other income included the net gain on sale of the Domantis investment of $136.1 million and realised foreign exchange gains of $0.4 million on foreign currency derivative instruments.

Employee benefits expense was $11.2 million (2007 $6.5 million) reflecting the increased number of employees following the merger with EvoGenix and increased resources in research and development and clinical trials as Arana continues to develop its product pipeline.

Depreciation and amortisation costs were $9.6 million (2007 $2.8 million), the increase representing the amortisation of the intangible intellectual property assets recognised on the merger with EvoGenix.

During the year $24.1 million (2007 $11.6 million) was spent on external research and development activities, the increase reflects the Phase I and II activity for ART621 as well as the inclusion of the EvoGenix research and development activity for a full 12 months.

Premises expense was a $0.1 million credit (2007 $2.1 million expense). The 2008 expense has been offset by a credit release of $1.4 million from a surplus lease space provision and the release of $0.3 million from an accrued lease incentive liability. These relate to Arana's site exit as part of the sale of the animal health business. Facility costs for continuing operations have increased due to the inclusion of the EvoGenix Melbourne and U.S. sites and Arana's relocation to a larger site in Sydney.

Corporate and patent expense was $4.7 million (2007 $5.7 million) the decrease is due to one-off costs incurred in 2007 for the Alternative Investment Market (AIM) listing on the London Stock Exchange and investor relations and integration activity associated with the EvoGenix merger.

Finance costs of $0.7 million (2007 $0.8 million) have been recorded. These are non-cash charges representing the implied finance costs arising from the discounted non current liabilities for the deferred consideration payable for the Promics and Scancell acquisitions. These finance costs are expected to be incurred in future reporting periods as the discounts continue to unwind.

Tax expense in the current year was $3.0 million (2007 $0.2 million). The increase reflects de-recognition of the deferred tax balances at September 2008.

### B) BALANCE SHEET

The increase in cash reserves to $181.6 million (2007 $169.0 million) has resulted from the $17.7 million cash receipt of the escrowed Domantis sale proceeds in January 2008 and net of positive operating cash flows of $7.1 million but offset by $8.6 million payments for property, plant and equipment. The cash reserves are held in short to medium term deposits with Australian banks.

Trade and other receivables of $12.8 million (2007 $25.5 million) have decreased due to the receipt of the escrowed Domantis sale proceeds of $17.7 million, but with increased interest income receivable of $2.7 million.

Property, plant and equipment has increased to $11.2 million (2007 $1.2 million) representing the $6.2 million investment in new facilities (leasehold) in Sydney, Melbourne and San Francisco and scientific equipment of $3.0 million.

Intangible assets have decreased to $121.6 million (2007 $129.9 million). The movement represents current period amortisation.

Other liabilities of $1.6 million (current) and $2.0 million (non-current) have been recognised under A-IFRS in the current year and represent the deferred revenue on the KHK co-development agreement. This deferred revenue will be brought to account on a straight line basis in future years as the collaboration activity continues.

### C) STATEMENT OF CASH FLOWS

Cash flows from continuing operations have increased from $5.9 million to $7.1 million, reflecting the increased receipts of royalty and licensing and interest income and offset by increased expenditure on consumables, research and development and employee benefits.

Cash inflows from investing activities (continuing operations) were $9.1 million (2007 $125.0 million). These represent the cash receipt of the escrowed Domantis sale proceeds and the payment of $8.6 million for property, plant and equipment.

## Matters subsequent to the end of the year

No matter or circumstance has arisen since 30 September 2008 that has significantly affected, or may significantly affect:

(a) the Group's operations in future years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.



## Likely developments and expected results of operations

Information on likely developments and expected results of operations has not been included in this report because the directors believe it would result in unreasonable prejudice to the Group.

## Environmental regulation

The Group is subject to environmental regulation in respect of disposal of wastes generated in the operation of its laboratories. Such wastes are separately collected and classified according to type, for example solvents and all other potentially hazardous material. They are disposed of by waste collection organisations as relevant to the type of waste.

There have been no known breaches of the relevant Environmental Act and Regulations during the current year.

## Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 September 2008, and the numbers of meetings attended by each director were:

| | Full meetings of directors | | Meetings of committees | | | |
|---|---|---|---|---|---|---|
| | | | Audit and Compliance | | Remuneration | |
| | A | B | A | B | A | B |
| R Beaumont | 14 | 14 | 2 | 2 | 5 | 5 |
| L Chee | 14 | 13 | 1 | 1 | ** | ** |
| J Chiplin * (resigned 5 November 2008) | 14 | 14 | ** | ** | ** | ** |
| C Harris | 14 | 12 | 4 | 4 | 3 | 3 |
| G Jessup (appointed 1 November 2007) | 14 | 13 | 4 | 4 | 4 | 4 |
| M Bridges (resigned 1 November 2007) | 1 | 1 | - | - | - | - |
| B Bartlett (resigned 28 December 2007) | 4 | 2 | 2 | 2 | 2 | 2 |
| G Bundy (resigned 11 December 2007) | 4 | 3 | 2 | 2 | 1 | 1 |
| P Jennings * (resigned 14 February 2008) | 6 | 6 | ** | ** | ** | ** |

Notes
A = Number of meetings held during the time the director held office or was a member of the committee during the year
B = Number of meetings attended
* = Executive director
** = Not a member of the relevant committee

The Nomination committee did not meet during the year. Director appointments were considered by the entire Board. Lincoln Chee was appointed to the Audit and Compliance committee during the year. George Jessup was appointed to the Remuneration and the Audit and Compliance committees during the year.

# Directors' Report

## Information on Directors

**Robin Beaumont,** Dip. App. Chem., MBA
**Independent Non-executive Chairman**

Robin Beaumont joined Arana's board in August 2007 and was appointed Chairman on 1 November 2007.

Robin was Managing Director of the Advent Venture Capital group until 1998 and represented Advent's interests as a director of five investee companies, including Primary Health Care Limited and the Ayers Rock Resort Company. Prior to joining Advent, he had more than 10 years of strategy consulting experience, after holding senior management positions in the Pacific Dunlop group. He is currently the Chairman of Select Vaccines Limited (director since 2005) and was Chairman of the Cooperative Research Centre for Diagnostics until June 2007. Robin was a Non-executive Director of EvoGenix Limited (2004 to August 2007) until its merger with Peptech Limited (the previous name of Arana Therapeutics Limited).

During the last three years he has also served as a director of the following listed companies: Gropep Limited (1999 to 2006) and EvoGenix Limited (2004 to August 2007).

He is a member of the Remuneration Committee and Audit and Compliance Committee.

**Gordon Black,** BSc, MBA
**Non-independent Non-executive Director**

Gordon Black joined Arana's board in October 2008. Gordon is actively involved in the development of the Australian life sciences industry. He is currently Managing Director and co-founder in 2002 of BioFusion Capital (a significant shareholder in Arana), a specialist life sciences venture capital fund and early stage investor in EvoGenix Limited. Gordon also co-founded East West Capital Limited in 2005, a specialist funds management company, investing in Australian listed equities for Australian and international investors.

Previously, Gordon worked in the U.S. and Asia Pacific with Merrill Lynch, New York in capital markets and with Du Pont in the global chemical industry in the U.S. head office Wilmington, Delaware, as Senior Analyst Special Projects and later in Corporate Planning supporting the Du Pont global business units operating in the Asia Pacific region.

After returning to Sydney in 1994, Gordon joined the ASX listed property investment company Ipoh Limited. As Director - Corporate Services, he reported to the Managing Director and was responsible for strategic planning, capital raising and investment prior to the company being acquired by the Government Investment Corporation of Singapore in 2001.

**Lincoln Chee,** MBBS, FRCS, FAMS, FAAO-HNS
**Non-independent Non-executive Director**

Lincoln Chee joined Arana's board in April 2007. He brings to the board more than 18 years of healthcare experience. During his career he has been a Consultant surgeon with Singapore General Hospital and a clinical lecturer in National University of Singapore.

He is currently Chief Executive Officer of Quality HealthCare Asia Limited, Hong Kong's leading healthcare group listed on the Hong Kong Stock Exchange (director since March 2003).

Dr Chee is also a member of the Health Taskforce Business Professional Federation of Hong Kong and a member of the Government of HKSAR Health and Welfare steering committee on electronic medical records.

He is a member of the Audit and Compliance Committee.

**Chris Harris,** B.Ec, FCPA, FAICD
**Independent Non-executive Director**

Chris Harris joined Arana's board in August 2007. Chris is a former Group Managing Director and Chief Executive Officer of pharmaceutical company F.H. Faulding & Co. Limited. His earlier roles with the same company were as Finance Director and Chief Operating Officer. Since leaving Faulding in 1993, he has had a distinguished record of leadership as a director and chair of major Australian companies. Chris is currently Chair of Argo Investments Limited (director since 1994), and Non-executive Director of Australian Vintage Limited (director since 1994), Adelaide Brighton Limited (director since 1995) and JM Financial Group Limited (director since 1999).

Chris was formerly Non-executive Chairman of EvoGenix Limited (2004 to August 2007) until its merger with Peptech Limited (the previous name of Arana Therapeutics Limited).

He is Chairman of the Audit and Compliance Committee and is a member of the Remuneration Committee.



**George Jessup,** MBBS, MBiomed Eng MBA
**Non-independent Non-executive Director**

George Jessup joined Arana's board in November 2007. George is active in investing in and providing strategic direction to biotechnology companies. He is co-founder and Managing Director of Start-up Australia, which manages institutional funds and invests in life science companies. Start-up Australia has played a key role in assisting numerous companies move from start-up to become significant players in their market, achieving an initial public offering or mergers and acquisition. These companies now have operations in Australia, North America, China, India and South Africa. George has extensive experience in senior management roles in the medical device and pharmaceutical industries in the U.S. and Australia, including an appointment in the U.S. as Global Director of Medical Affairs of the Medical Device Division of an international pharmaceutical company (American Cyanamid Company, later acquired by Wyeth).

George was formerly Non-executive Director of EvoGenix Limited (2001 to August 2007) until its merger with Peptech Limited (the previous name of Arana Therapeutics Limited) and was a Non-executive Director of Bionomics Limited (2005 to April 2008).

He is Chairman of the Remuneration Committee and a member of the Audit and Compliance Committee.

**Niall Henderson,** BAcc, CA, ACA, AICD
**Chief Financial Officer and Company Secretary**

Niall Henderson joined Arana in December 2001.

His career encompasses periods both in the accounting profession (with Deloitte in Glasgow and Sydney) and in commerce. He has over 25 years commercial accounting experience, most of which has been spent with the international TNT transport group. He held a number of senior financial positions both in Australia and in Europe both at a corporate and divisional level. He has been significantly involved in mergers and acquisitions and most recently held the position of Director and Chief Financial Officer of TNT Australia, the major express and logistics subsidiary of the TNT Post Group.

# Remuneration Report

## Introduction

This remuneration report is divided into two main sections. The current Board of directors is implementing the policies contained in Section 1. Section 2 details previous remuneration arrangements.

## Section 1

The remuneration report is set out under the following main headings

- **A** Principles used to determine the nature and amount of remuneration
- **B** Details of remuneration
- **C** Service agreements
- **D** Share-based compensation
- **E** Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the ***Corporations Act 2001***.

### A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The Board has established a Remuneration Committee, which makes recommendations to the Board on all matters relating to remuneration for all entities within the consolidated group. The Remuneration Committee considers executive remuneration and incentive policies; recruitment, retention and termination policies and procedures; Board, senior managers' and group executives' remuneration; and contractual arrangements with senior managers and group executives. All members of the Remuneration Committee are non-executive directors. At the end of the year, the members of the Remuneration Committee were George Jessup (Chairman), Chris Harris and Robin Beaumont.

The Group's remuneration reviews take place effective 1 January each year. Prior to this date, the Remuneration Committee meets to discuss the remuneration of directors, senior managers and group executives. The Chief Executive Officer makes recommendations to the Remuneration Committee regarding the remuneration of each of his direct reports and the overall remuneration framework for all employees. The Remuneration Committee, while the Chief Executive Officer is absent, discusses the remuneration of the Chief Executive Officer.

#### (a) Chairman and Non-Executive Directors

The Remuneration Committee considers annually the fees payable to the Chairman and the Non-executive Directors. In undertaking this review, the Committee may access independent advice. Taking into account any independent advice, remuneration surveys and their own knowledge and experience, the Remuneration Committee makes recommendations on fees to the Board. The Chairman and Non-executive Directors can choose, subject to certain restrictions, the amount of their fees allocated to superannuation.

# Remuneration Report

### (b) Chief Executive Officer

The former Chief Executive Officer entered into a four-year employment contract commencing 1 January 2006. Effective from 1 January 2008, his remuneration consists of a base pay of $500,000 (which can be allocated between salary, allowances, superannuation and other benefits), a short-term incentive of $250,000 per annum and a long term incentive equal to 50% of base pay. The setting of the short term and long term incentives are explained later in this report.

The Chief Executive Officer's remuneration was set having considered Australian and international market conditions for similar roles.

### (c) Employees

The Group's remuneration policy applies to remuneration arrangements for persons employed by the Company, or other group entities (other than Non-executive Directors and the Chairman), including all company secretaries for entities within the Group, senior managers and other group executives.

Arana's remuneration policy is to have arrangements that attract, motivate and retain employees, while ensuring that the interests of employees are in line with the interests of shareholders.

The Arana Board recognises that the success of the Group hinges on the performance and abilities of its employees. Therefore, as a matter of policy, Arana remunerates all employees on the following basis:

- Base remuneration (Total Remuneration Package or TRP) which in the main, is set at average remuneration for the industry. Base remuneration provides fixed remuneration on a total cost-to-company basis, which includes any Fringe Benefits Tax relating to employee benefits. Senior managers and group executives can nominate to be paid their base remuneration in cash or other benefits including superannuation, motor vehicles and salary insurance.
- Incentive arrangements that enable employees to be paid on a sliding scale based on performance up to the 75th percentile for excellent performance and above that for extreme stretch performance.

The Board has constructed the performance pay of all employees to reflect near term objectives aligned to the Group's business plan (Short Term Incentives – STI) and for certain employees longer term shareholder wealth creation (Long Term Incentives – LTI). The STI's are set each year and if achieved, are paid in cash. The LTI's, in the form of the performance shares, are allocated each year but vest (ie are given to the employee) based on achieving share price growth hurdles over a three year period. Details of LTI arrangements are described later in this report.

The Board believes that the remuneration policies in place align the interests of executives with those of the Company's shareholders while at the same time enabling the Group to retain a high quality team of executives and employees.

### (d) Short term incentives

STI's are paid based on individual and Group performance. Senior executives have a greater portion of their incentive based on total Group performance.

STI's for 2008 have been set for the majority of employees as follows:

- For senior managers STI to be 35-50% of TRP
- For all other employees STI to be 15-30% of TRP

### (e) Setting and measurement of STI performance conditions

For senior managers 70% of the STI is allocated to overall Group objectives, with 30% allocated to personal objectives aligned to the overall objectives of the Group. For all other employees the mix is 50%/50%. The overall Group objectives are considered on a calendar year basis and are based on the Group's business plan. These objectives are set by the Board. The objectives are a mix of commercial and scientific milestones critical to the development of the Group. Each objective has a specific allocation within the overall objectives, so that there is transparency in determining the level of achievement of the STI. The Remuneration Committee assigned a higher ratio of overall company performance to the senior managers' STI's reflecting the requirement for senior managers to work as a team with a focus on overall Group performance.

To assess whether the Group objectives have been met, the Remuneration Committee meets to determine whether each specific objective has been met. Each member of the Remuneration Committee independently assesses whether the objective has been met, or the degree to which it has been met. These assessments are then tabled and discussed and the Remuneration Committee decides on the overall achievement in relation to the Group objectives. The Remuneration Committee then makes a recommendation to the Board.

Personal objectives are set after the Board has confirmed the overall company objectives. Each manager meets with their direct reports to identify specific measurable objectives, aligned with the Group's objectives for the calendar year. Towards the end of the calendar year, the achievement of personal objectives is assessed by each manager who then makes a recommendation to the Chief Executive Officer regarding the achievement of STI. Direct reports to the Chief Executive Officer, have their STI achievement presented to, and approved by, the Remuneration Committee.

The Group has a further qualifying requirement for all STI's – the employee must be employed by the Group at the end of the calendar year to which the STI applies. Any employees who leave part way through a year will, in the ordinary course of business, receive no STI. The Board however retains a residual discretion to pay an STI if an employee leaves the Group due to circumstances outside their control.

Both sets of measures (Financial and Personal) are calibrated so that maximum awards are only payable for performance beyond expectation. Good performance will be rewarded, but not at maximum level.



The remuneration relating to STI's included in this report relate to the Group and individual performance for the calendar year ended 31 December 2007.

The performance criteria for calendar year 2007 were the progress of the Group against a number of specific corporate, human health and animal health objectives including financial performance, licensing arrangements, third party relationships, development of the product pipeline and operational improvements.

### (f) Long term incentives

The Company has a long-term incentive plan in the form of a Performance Share Plan. The key features of the plan are:

- It is open to selected executives.
- The maximum allocation of shares per annum is up to 50% of an employee's total remuneration package (TRP) for that year.
- Performance shares are allocated annually.
- Performance shares allocated to an employee in a particular year will vest, if, on the third anniversary, the relevant performance hurdle has been met.
- The performance hurdle for all plan participants for allocations in 2008 is based on the Compound Annual Growth Rate (CAGR), as set out in the following table:

| Arana share price CAGR | % of shares vested |
|---|---|
| CAGR 10% | 0% |
| CAGR 55% | 100% |
| Between 10% and 55% | Pro rata between zero and 100% |

- The share price for Arana used in the evaluation of the CAGR performance hurdle is the closing average share price for the three months prior to date of vesting.
- If an employee resigns in the ordinary course of business, any allocated shares which have not vested will lapse.
- The base share price for the allocations made on 22 September 2008 was $1.17 per share, being the three month closing average share price to 31 December 2007.

The Remuneration Committee (with new membership), obtained independent expert advice on the appropriate measurement for the LTI. Taking into account that advice and their own experience, the Remuneration Committee determined that shareholder return performance over a three year period was the most appropriate measurement. It was decided to use the growth in share price, as this measurement aligns with the interests of shareholders.

In prior years Arana had a Performance Share Plan with different performance hurdles and the details of that plan has been disclosed in previous annual reports.

## B DETAILS OF REMUNERATION

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 ***Related Party Disclosures***) of the Company and the Group for the financial years ending 30 September 2008 and 2007 are set out in the following tables.

The key management personnel of the Company includes the directors and the following company executives, who are the highest paid company executives, for the year ended 30 September 2008:

- R Beaumont – Non-executive Chairman (appointed Chairman 1 November 2007)
- M Bridges – Non-executive Chairman (resigned 1 November 2007)
- L Chee – Non-executive Director
- C Harris – Non-executive Director
- G Jessup – Non-executive Director (appointed 1 November 2007)
- B Bartlett – Non-executive Director (resigned 28 December 2007)
- G Bundy – Non-executive Director (resigned 11 December 2007)
- J Chiplin – Managing Director and Chief Executive Officer (resigned as Managing Director 5 November 2008)
- D Fuller – Chief Medical Officer
- N Henderson – Chief Financial Officer and Company Secretary
- C Holloway – Vice-President, Business Development - Products
- P Jennings – Chief Scientific Officer

In addition to the key management personnel employed by the Company, the following key management personnel are employed by other entities of the Group, for the year ended 30 September 2008:

- R Crombie – Vice President, Business Development - Technology
- S Nock – President, U.S. Operations

# Remuneration Report

Directors and Key Management Personnel (KMP) of Arana Therapeutics Limited and the Group

| 2008 | Short-term benefits | | | | | Post employment benefits | Share-based payment | Total |
|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | STI $ | Retention payment $ (8) | Non-monetary benefits $ | Leave $ | Superannuation $ | Shares $ | $ |
| R Beaumont (1) | 143,404 | - | - | - | - | - | - | 143,404 |
| M Bridges (2) | 15,000 | - | - | - | - | - | - | 15,000 |
| L Chee (3) | 106,275 | - | - | - | - | - | - | 106,275 |
| C Harris | 65,000 | - | - | - | - | 5,850 | - | 70,850 |
| G Jessup (4) | 64,946 | - | - | - | - | - | - | 64,946 |
| B Bartlett (5) | 16,250 | - | - | - | - | 1,463 | - | 17,713 |
| G Bundy (6) | 11,807 | - | - | - | - | - | - | 11,807 |
| J Chiplin (9) (10) | 496,420 | 165,000 | 250,000 | 3,575 | 41,473 | - | 56,028 | 1,012,496 |
| D Fuller (9) | 365,403 | 89,375 | - | - | 33,858 | 49,596 | 185 | 538,417 |
| N Henderson (9) | 276,138 | 85,344 | 115,000 | 6,309 | 19,225 | 49,811 | 40,118 | 591,945 |
| C Holloway (9) | 265,125 | 75,160 | 115,000 | - | 14,187 | 15,000 | 18,340 | 502,812 |
| P Jennings (7) (9) | 306,640 | 84,615 | 125,000 | 1,668 | 20,176 | 100,000 | 49,945 | 688,044 |
| **Total Director and KMP of the parent entity** | **2,132,408** | **499,494** | **605,000** | **11,552** | **128,919** | **221,720** | **164,616** | **3,763,709** |
| *Other KMP of the Group* | | | | | | | | |
| R Crombie | 234,408 | 30,963 | - | - | 14,258 | 43,503 | 125 | 323,257 |
| S Nock | 241,849 | 33,193 | - | 1,217 | 19,816 | 7,256 | 126 | 303,457 |
| **Total** | **2,608,665** | **563,650** | **605,000** | **12,769** | **162,993** | **272,479** | **164,867** | **4,390,423** |

Notes
1. R Beaumont became Chairman of the Company on 1 November 2007.
2. M Bridges was Chairman until his date of resignation on 1 November 2007.
3. L Chee's director fees includes fees in relation to activity performed in prior periods.
4. G Jessup became a Director of the Company on 1 November 2007.
5. B Bartlett resigned on 28 December 2007.
6. G Bundy resigned on 11 December 2007.
7. P Jennings was an Executive Director until 14 February 2008 – his full remuneration is disclosed as he is also a key management personnel.
8. Short term benefits include retention payments as determined by the previous board of directors.
9. These personnel are the only executives of the parent entity.
10. J Chiplin resigned as Managing Director on 5 November 2008.

Non-monetary benefits include motor vehicle leasing payments, relocation costs, related Fringe Benefits Tax and salary continuance insurance. Cash salary and fees include cash payments and allowances.

Leave represents the accrued annual leave and long service leave for the period less any leave taken.

Non-executive Directors receive a fee of $70,850 per annum, inclusive of superannuation. The Non-executive Chairman is paid a fee of $150,000 per annum.

The target (ie assuming all STI objectives are met) split between fixed and variable pay for remuneration through to 31 December 2008 is as follows:

| Name | Fixed | At Risk | | Total |
|---|---|---|---|---|
| | | STI | LTI | |
| J Chiplin | 50% | 25% | 25% | 100% |
| D Fuller | 50% | 25% | 25% | 100% |
| N Henderson | 54% | 19% | 27% | 100% |
| C Holloway | 50% | 25% | 25% | 100% |
| P Jennings | 54% | 19% | 27% | 100% |
| R Crombie | 50% | 25% | 25% | 100% |
| S Nock | 54% | 19% | 27% | 100% |



Directors and Key Management Personnel (KMP) of Arana Therapeutics Limited and the Group

| 2007 | Short-term benefits | | | | Post employment benefits | Share-based payment | Total |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | STI $ | Non-monetary benefits $ | Leave $ | Superannuation $ | Shares $ | $ |
| M Bridges (1) | 189,375 | - | 5,457 | - | - | - | 194,832 |
| M Kriewaldt (2) | 59,583 | - | - | - | 5,363 | - | 64,946 |
| T Medinger (2) | 91,667 | - | - | - | - | - | 91,667 |
| B Bartlett | - | - | - | - | 70,850 | - | 70,850 |
| G Bundy | 70,844 | - | - | - | - | - | 70,844 |
| R Beaumont (3) | 5,904 | - | - | - | - | - | 5,904 |
| C Harris (3) | 5,417 | - | - | - | 488 | - | 5,905 |
| L Chee (4) | 3,050 | - | - | - | - | - | 3,050 |
| J Chiplin | 466,480 | 200,000 | 108,520 | 37,777 | - | 47,152 | 859,929 |
| P Jennings | 263,151 | 71,064 | 1,520 | 12,209 | 103,617 | 65,164 | 516,725 |
| N Henderson | 263,979 | 53,122 | 3,004 | 21,368 | 39,596 | 51,206 | 432,275 |
| C Holloway | 247,500 | 147,075 | - | 22,667 | 15,000 | 13,573 | 445,815 |
| **Total Director and KMP of the parent entity** | **1,666,950** | **471,261** | **118,501** | **94,021** | **234,914** | **177,095** | **2,762,742** |
| *Other KMP of the Group* | | | | | | | |
| S Nock (5) | 16,863 | - | - | 1,615 | 2,011 | - | 20,489 |
| R Crombie (5) | 19,113 | - | - | 2,112 | 1,720 | - | 22,945 |
| P Schober (6) | 135,615 | 34,610 | 19,312 | 12,525 | 22,917 | 30,491 | 255,470 |
| **Totals** | **1,838,541** | **505,871** | **137,813** | **110,273** | **261,562** | **207,586** | **3,061,646** |

Notes
1. M Bridges resigned as Chairman of the Company effective 1 November 2007, R Beaumont was appointed as Chairman on 1 November 2007.
2. M Kriewaldt and T Medinger resigned as directors of the Company effective 28 August 2007.
3. R Beaumont and C Harris were appointed as directors on 28 August 2007.
4. L Chee was appointed as director on 5 April 2007. L Chee received minimal directors' fees as the Company has utilised its directors' fees as approved by shareholders.
5. S Nock and R Crombie were appointed as key management personnel on 28 August 2007 as a result of the Company's merger with EvoGenix.
6. P Schober ceased to be a direct report of the Chief Executive Officer on 28 August 2007 as a result of the Company's merger with EvoGenix.

Non-monetary benefits include motor vehicle leasing payments, relocation costs, related Fringe Benefits Tax and salary continuance insurance. Cash salary and fees include cash payments, living away from home allowances and education allowances.

Leave represents the accrued annual leave and long service leave for the period less any leave taken.

# Remuneration Report

## C SERVICE AGREEMENTS

The directors and key management personnel have their terms of employment covered by formal contractual arrangements covering basic pay, incentive arrangements and payments upon termination.

### John Chiplin - Chief Executive Officer (resigned as Managing Director on 5 November 2008)

The former Chief Executive Officer entered into a four-year employment contract commencing 1 January 2006. Effective from 1 January 2008, his remuneration consists of a base pay of $500,000 (which can be allocated between salary, allowances, superannuation and other benefits), a short-term incentive of $250,000 per annum and a long term incentive equal to 50% of base pay. The setting of the short term and long term incentives are explained earlier in this report.

### All other Key Management Personnel, except for R Crombie

All managers have a formal contract of employment.

Key features of these contracts are:

- They are not for a fixed term; and
- The Company can terminate the contract at any time with a payment of six months TRP for specified executives who have not completed 12 years of service, and a payment of nine months TRP for specified executives who have completed 12 or more years of service.

If termination arises as a result of a merger or takeover initiated or substantially contributed to by these Executives then the Board will consider the payment of an additional three months base pay.

### R Crombie - Vice President, Business Development - Technology

Key features of this contract are:

- It is not for a fixed term.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, is three months notice plus six months base salary and benefits and with a further up to three months notice payable if termination occurs between a change of control and three months after a change in control.



## D SHARE-BASED COMPENSATION

### Value of options granted during the year

No options were granted during the year to directors or key management personnel.

### Performance Shares

During the year performance shares were allocated to selected employees on 22 September 2008 and in prior periods performance shares have been allocated to all employees. The performance shares have been valued taking into account the performance hurdle as previously described in this report. The performance shares have been independently valued by Mercer Human Resource Consulting Pty Ltd using a Monte-Carlo simulation valuation model. The values of the performance shares issued and the key assumptions were:

| Grant date | Measurement date at end of performance period | Risk free rate | Volatility | Dividend yield | Value per share |
|---|---|---|---|---|---|
| 1 March 2004 | 28 February 2007 | 5.31% | 50% | 0% | $1.442 |
| 1 January 2005 | 31 December 2007 | 5.11% | 50% | 0% | $1.468 |
| 1 January 2006 | 31 December 2008 | 5.10% | 40% | 0% | $1.098 |
| 1 January 2007 | 31 December 2009 | 5.80% | 34% | 0% | $1.370 |
| 22 September 2008 | 31 December 2010 | 5.61% | 38% | 0% | $0.095 |

In the remuneration tables earlier in this report, the value per share is allocated equally over the three year period from date of grant (or date of deemed grant (1 January 2008) for the allocations in 2008) to date of vesting.

When the shares vest they are subject to the Arana Share Trading policy.

### Value of options exercised or lapsed during the year

The company had no options outstanding at any time during the year.

### Details of risk remuneration granted in the period

### Directors and Key Management Personnel – Arana Therapeutics group

| Performance shares | Number at beginning of year | Number granted | Number vested | Number forfeited | Number at end of year | Value of shares granted | |
|---|---|---|---|---|---|---|---|
| | | | | | | Minimum | Maximum |
| *Directors* | | | | | | | |
| J Chiplin | 134,016 | 213,675 | - | - | 347,691 | - | $20,299 |
| *Key Management Personnel* | | | | | | | |
| R Crombie | - | 121,514 | - | - | 121,154 | - | $11,510 |
| D Fuller | - | 179,487 | - | - | 179,487 | - | $17,051 |
| N Henderson | 117,376 | 143,590 | (23,693) | (6,468) | 230,805 | - | $13,641 |
| C Holloway | 39,887 | 121,154 | - | - | 161,041 | - | $11,510 |
| P Jennings | 148,894 | 179,487 | (31,694) | (8,653) | 288,034 | - | $17,051 |
| S Nock | - | 122,863 | - | - | 122,863 | - | $11,672 |

Included in this table are cash equivalent performance shares.

For the performance shares at the beginning of the financial year, the shares were issued in three separate rounds:

(a) shares issued on 1 January 2005 with their performance measurement period ending on 31 December 2007; and

(b) shares issued on 1 January 2006 with their performance measurement period ending on 31 December 2008; and

(c) shares issued on 1 January 2007 with their performance measurement period ending on 31 December 2009

The maximum value of the shares granted has been determined by multiplying the number of shares granted during the financial year by the fair value of those shares at date of grant as determined by Mercer Human Resource Consulting Pty Ltd being $0.095.

# Remuneration Report

## E ADDITIONAL INFORMATION

Details of at risk remuneration granted in the period

**Directors and Key Management Personnel - Arana Therapeutics group**

There were no grants of cash bonuses or performance shares to non-executive directors during the financial year. For executive directors and key management personnel, the table below sets out details in relation to STI benefits (paid in January 2008 in relation to performance for the year ended 31 December 2007).

| Cash bonus | Achieved | | Forfeited | | Total | |
|---|---|---|---|---|---|---|
| | % | $ | % | $ | % | $ |
| *Directors* | | | | | | |
| J Chiplin | 66% | 165,000 | 34% | 85,000 | 100% | 250,000 |
| *Key Management Personnel* | | | | | | |
| R Crombie | 90% | 33,750 | 10% | 3,750 | 100% | 37,500 |
| D Fuller | N/A | N/A | N/A | N/A | N/A | N/A |
| N Henderson | 76% | 85,344 | 24% | 26,656 | 100% | 112,000 |
| C Holloway | 73% | 95,160 | 27% | 34,840 | 100% | 130,000 |
| P Jennings | 76% | 84,615 | 24% | 27,310 | 100% | 111,925 |
| S Nock | 100% | 31,759 | 0% | - | 100% | 31,759 |

The entire STI was paid in the year (except for C Holloway) with no amounts carried forward to future financial years. C Holloway was paid $20,000 (a portion of the $95,160 in the table above) of his STI during the year ended 30 September 2007.

S Nock and R Crombie commenced employment with the Group on 28 August 2007 and therefore, their STI was only in relation to the 4 month period to 31 December 2007. D Fuller commenced employment on 1 October 2007, and except for a sign-on payment of $102,500 which is being paid in instalments through to December 2008, with $89,375 being paid in the period to 30 September 2008, did not receive any other STI in the period to 30 September 2008.

**Equity instrument disclosures relating to directors and key management personnel**

**Options**

There were no options on issue at any time during the year.

### Historic earnings and share price performance

The table below sets out, for each financial year between 2004 and 2008:

- the Group's net profit after tax;
- the highest and lowest price at which the Company's ordinary shares were traded during the financial year, and the closing price of the Company's ordinary shares at the end of the financial year;
- the total dividend per share paid by the Company; and
- the Total Shareholder Return (TSR) for the financial year.

| | | Share Price | | | | |
|---|---|---|---|---|---|---|
| Financial Year | Net Profit $m | Low $ | High $ | Closing $ | Dividend Paid $ | TSR pa % |
| 2003 | (15.8) | 0.75 | 2.35 | 1.81 | - | (18.8%) |
| 2004 | 28.3 | 1.03 | 2.02 | 1.55 | - | (16.8%) |
| 2005 | 25.7 | 1.19 | 2.20 | 1.37 | 0.08 | (6.5%) |
| 2006 | 5.1 | 1.21 | 1.53 | 1.31 | - | (4.4%) |
| 2007 | 133.4 | 1.11 | 1.97 | 1.24 | - | (5.3%) |
| 2008 | (4.1) | 0.72 | 1.27 | 0.82 | - | (33.9%) |

The Group creates shareholder wealth through developing products and licensing its technologies. Revenues are a mixture of regular income from existing licence agreements and irregular income from entering into new licence agreements. This can result in earnings that do not follow a predictable profile. The unpredictable nature of earnings reflects the standard biotechnology industry model, where initially funds are spent developing a product, thereby incurring financial losses and at a stage in development (this varies from transaction to transaction) the product is licensed to another party for further development. Typical licence agreements contain an upfront payment on signing the agreement (usually a material sum), a number of milestone payments through the further development of the product, and royalties arising from the sale of the developed product. On some occasions there can be a gap of one or more years between receipts through the development period. This can give rise to unpredictable earnings. Therefore net profit, while useful in determining a company's success, is not the key factor in creating shareholder wealth. Hence the Board, in setting STI objectives considers all aspects of the business plan.



## Section 2

This section details remuneration arrangements that were adopted in the past which are still required to be disclosed.

### Retention payments

The previous Board put in place retention payment arrangements with certain executives of the Company.

| Name | $ |
|---|---|
| J Chiplin | 250,000 |
| P Jennings | 125,000 |
| C Holloway | 115,000 |
| N Henderson | 115,000 |

These payments were made in January 2008.

### Previous performance share plan

In prior years, the company had a performance share plan that was approved by shareholders. Certain employees are still entitled to receive shares under share grants made under the previous plan, assuming certain performance hurdles are met. The details of this share plan are as follows:

- Performance shares allocated to an employee in a particular year will vest, if, on the third anniversary on which the shares were allocated, the relevant performance hurdle has been met.
- The performance hurdle is: if the Company is at the 51st percentile of a peer group of companies' Total Shareholder Return or TSR (ie, if it performs better than 51% of the companies in the peer group), 50% of the shares allocated to an employee in the relevant grant year will vest. Total Shareholder Return is the share price growth plus dividends over the vesting period. If the Company is at the 75th percentile or above, ie if it performs better than 75% of the companies in the peer group, 100% of the shares will vest. There will be a pro-rata allocation between the 51st and 75th percentiles. In summary, the Company must perform better than half of the companies in the peer group for any of the shares to vest. The share price (for the Company and all peer group companies) used in determining TSR is the closing average share price for the three months prior to date of grant and the three months prior to date of vesting.
- If an employee resigns in the ordinary course of business, any allocated shares which have not vested will lapse.

### Details of the peer group of companies for the LTI

The identity of the peer group of companies for the 2004, 2005, 2006 and 2007 allocations were:

| 2004 Performance Share Plan | 2005 Performance Share Plan |
|---|---|
| Agenix Ltd | Agenix Ltd |
| AGT Biosciences Ltd *(now Chemgenex Ltd)* | Amrad Corporation Ltd *(now Zenyth Ltd)* |
| Amrad Corporation Ltd *(now Zenyth Ltd)* | Antisense Therapeutics Ltd |
| Antisense Therapeutics Ltd | Biota Holdings |
| Benitec Ltd | Chemeq Ltd |
| Bionomics Ltd | Chemgenex Ltd |
| Biota Holdings | Cytopia Ltd |
| Biotech Capital Ltd | Eiffel Technologies Ltd *(now Telesso Technologies Ltd)* |
| Biotron Ltd | Epitan Ltd *(now Clinuvel Ltd)* |
| Bresagen Ltd | Gropep Ltd |
| Chemeq Ltd | Metabolic Pharmaceuticals Ltd |
| Gropep Ltd | Norwood Abbey Ltd |
| Medica Holdings Ltd *(now Cytopia Ltd)* | Novogen Ltd |
| Novogen Ltd | Peplin Biotech Ltd *(now Peplin, Inc)* |
| Peplin Biotech Ltd *(now Peplin,Inc)* | Pharmaxis Ltd |
| Prana Biotechnology Ltd | Prana Biotechnology Ltd |
| Prima Biomed Ltd | Prima Biomed Ltd |
| Progen Industries Ltd | Progen Industries Ltd |
| Sirtex Medical Ltd | Sirtex Medical Ltd |
| Starpharma Pooled Development Ltd *(now Starpharma Holdings Ltd)* | Starpharma Pooled Development Ltd *(now Starpharma Holdings Ltd)* |

# Remuneration Report

| 2006 Performance Share Plan | 2007 Performance Share Plan |
|---|---|
| Agenix Ltd | Agenix Ltd |
| Antisense Therapeutics Ltd | Alchemia Ltd |
| Biota Holdings | Biota Holdings Ltd |
| Chemeq Ltd | Biotron Ltd |
| Chemgenex Ltd | Bone Medical Ltd |
| Clinuvel Ltd | Chemeq Ltd |
| Cytopia Ltd | Chemgenix Ltd |
| Eiffel Technologies Ltd *(now Telesso Technologies Ltd)* | Circadian Technologies Ltd |
| Gropep Ltd | Cytopia Ltd |
| Metabolic Pharmaceuticals Ltd | EvoGenix Ltd |
| Norwood Abbey Ltd | Metabolic Pharmaceuticals Ltd |
| Novogen Ltd | Norwood Abbey Ltd |
| Peplin Biotech Ltd *(now Peplin, Inc)* | Novogen Ltd |
| Pharmaxis Ltd | Peplin Biotech Ltd *(now Peplin, Inc)* |
| Prana Biotechnology Ltd | Pharmaxis Ltd |
| Prima Biomed Ltd | Prana Biotechnology Ltd |
| Progen Industries Ltd | Prima Biomed Ltd |
| Sirtex Medical Ltd | Progen Industries Ltd |
| Starpharma Pooled Development Ltd *(now Starpharma Holdings Ltd)* | Sirtex Medical Ltd |
| Zenyth Ltd | Starpharma Holdings Ltd |

## Performance of the Company

| Date of grant | Date of measurement | Performance percentile | Shares allocated |
|---|---|---|---|
| March 2004 | 31 December 2006 | 76th | 192,079 |
| January 2005 | 31 December 2007 | 65th | 171,606 |
| January 2006 | 31 December 2008 | Not yet applicable | Not yet applicable |
| January 2007 | 31 December 2009 | Not yet applicable | Not yet applicable |

In relation to the subsequent plans, it is inappropriate to compare the Company's current performance against the respective peer group as circumstances will change up to the relevant measurement date.



# Directors' Report

## Shares under option

The number of unissued ordinary shares of Arana Therapeutics Limited under the Option Schemes at the date of this report is nil. Disclosure of exercise prices and expiry dates can be found at note 41 of the financial statements in respect of options outstanding as at 30 September 2008.

Details regarding shares issued on the exercise of options, during the financial year are disclosed at note 41 of the financial statements.

Since the end of the financial year:

(a) The Company has granted no options; and

(b) The Company has issued no shares arising from the exercise of options.

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

## Insurance of officers

During the year the Company paid a premium in respect of a contract insuring all the Directors and Officers against certain liabilities that they may incur in the course of exercising the powers of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings.

The contract prohibits the full disclosure of the details of the Directors' and Officers' liability insurance and the ***Corporations Act 2001*** does not require disclosure in these circumstances. The Company has entered into an agreement with each Director to indemnify or insure them to the maximum extent of the law.

## Proceedings on behalf of the company

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the ***Corporations Act 2001***.

## Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the ***Corporations Act 2001***. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the ***Corporations Act 2001*** for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in ***APES 110 Code of Ethics for Professional Accountants***.

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:

| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |
| | **$** | $ |
| **Assurance services** | | |
| **1. Audit services** | | |
| PricewaterhouseCoopers Australian firm: | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | **241,265** | 270,051 |
| Non-PricewaterhouseCoopers: | | |
| Audit and review of financial reports | **4,899** | - |
| **Total remuneration for audit services** | **246,164** | 270,051 |
| **2. Other assurance services** | | |
| PricewaterhouseCoopers Australian firm: | | |
| Audit of regulatory returns | **18,800** | 18,500 |
| Due diligence services | **-** | 265,033 |
| **Total remuneration for other assurance services** | **18,800** | 283,533 |
| **Total remuneration for assurance services** | **264,964** | 553,584 |
| **Taxation services** | | |
| PricewaterhouseCoopers Australian firm: | | |
| Tax compliance services, including review of and advice on company income tax returns | **57,500** | 60,433 |
| Other consulting and advice on taxation matters | **77,500** | 28,300 |
| **Total remuneration for taxation services** | **135,000** | 88,733 |

# Directors' Report

## Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the ***Corporations Act 2001*** is set out on page 43.

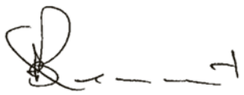
### Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, unless otherwise indicated.

### Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the ***Corporations Act 2001***.

This report is made in accordance with a resolution of the directors.



**R. Beaumont**

Chairman

Sydney

12 November 2008



PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
**ABN 52 780 433 757**

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

## Auditors' Independence Declaration

As lead auditor for the audit of Arana Therapeutics Limited for the year ended 30 September 2008, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Arana Therapeutics Limited and the entities it controlled during the period.

**M Dow**

Partner

PricewaterhouseCoopers

Sydney

12 November 2008

*Liability limited by a scheme approved under Professional Standards Legislation*

# Corporate Governance Statement

The Board is accountable to shareholders for the activities and performance of the Company. The Board's key responsibility is to create long term shareholder value within an appropriate risk framework. The Board expects its members and all employees of the company to act with the utmost integrity with all stakeholders whether they are shareholders, employees, customers, suppliers or other parties impacted by the behaviour of the Company.

The Company's corporate governance reflects the ASX Corporate Governance Council's principles and best practice recommendations. In each section below comments are made in relation to each ASX Corporate Governance Council principle.

## Principle 1

### Lay solid foundations for management and oversight

There is clear segregation of duties between the Board and management. The Board sets strategic direction and a policy framework which management then work within to manage the day-to-day business. The Board monitors this on a regular basis. The Board has adopted a formal charter that sets out their responsibilities. The Board charter is available on the Company's website www.arana.com.

## Principle 2

### Structure the Board to add value

Details on Board members and their qualifications are included in the section headed "Information on Directors". Current Board composition is two independent non-executive directors, three non-independent non-executive directors. The Company is currently conducting a search for an independent Non-executive Chairman. The Board's stated policy is to have a majority of independent directors,

The Board continually assesses its membership and makes appointments to complement and enhance the existing skill base of the Board. The Board has established a separate Nominations committee of all non-executive directors. Formal letters of appointment are used for all new non-executive directors.

The Board has a policy of allowing directors to seek independent professional advice at the Company's expense and this advice, if appropriate, will be shared with other directors. The Chairman will review in advance the estimated costs for reasonableness, but will not impede the seeking of advice.

The Company is currently conducting a search for an independent non-executive chairman. The Board believes that it is preferable to wait until this appointment before the next formal review of Board performance is carried out.

Robin Beaumont, an independent director, is the Non-executive Chairman.

## Principle 3

### Promote ethical and responsible decision-making

The Company has adopted a Code of Conduct which is published on the Company's website.

### Dealing in Company Shares

All employees in the Company receive training regarding the requirements of the ***Corporations Act 2001*** with regard to trading in the shares of the Company. In addition to the requirements of the ***Corporations Act 2001***, the company has a policy that only allows directors and employees, and their related parties, to buy or sell shares during the six week periods following the release of the full year and half year results, the AGM, and at other periods approved by the Board. Any person wishing to buy or sell shares must in advance of the transaction, obtain permission from the Board or its delegate.

The Company's policy prohibits persons covered by this policy to enter into derivative instruments in relation to contingent shares. Where a person covered by this policy enters into a derivative instrument in relation to shares held or contingent shares which have vested, the person must inform the Company Secretary who will then inform the market.

Any transaction conducted by directors in shares of the Company is notified to the Australian Securities Exchange (ASX). Each director has entered into an agreement with the Company to provide information to enable the Company to notify the ASX of any share transactions within five business days.

## Principle 4

### Safeguard integrity in financial reporting

The Board has established an Audit and Compliance committee. Its members are Chris Harris (Chairman), Robin Beaumont, Lincoln Chee and George Jessup. The Company is currently conducting a search for an independent Non-executive Chairman. It is anticipated that this director, upon appointment would also be appointed as a member of the Audit and Compliance committee, thereby creating a majority of independent directors.

The Audit and Compliance committee meets at least three times per year. The committee is responsible for the appointment of the Company's auditors and has a formal charter. The charter is reviewed at least annually to ensure it is in line with emerging market practices which are in the best interests of shareholders.

The Audit and Compliance committee's role is to provide a direct link between the Board and the external audit function of the Company. This includes reviewing and reporting to the Board that:

- The system of control which management has established effectively safeguards the Company's assets;
- Accounting records are properly maintained in accordance with statutory requirements;
- Financial information provided to shareholders and others is accurate and reliable; and
- External audit functions are effective and are appropriately scoped and resourced.



All other directors and the Chief Financial Officer are invited to attend all committee meetings, but on at least two occasions per year, all executives are asked to leave the meeting so that there can be open and frank communication between the committee and the auditor.

### Auditor independence

The committee considers the independence of the auditor. The auditor has a policy that the partner on the audit is rotated every five years and on an annual basis, the auditor provides a certificate to the committee confirming their independence. An analysis of fees paid to the auditor for non-audit services is included in the Directors' Report.

The auditor formally presents to the committee confirmation regarding their independence. The auditor's independence statement is included in the Audit Committee Report.

The Chief Financial Officer has certified to the committee that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.

## Principle 5

### Make timely and balanced disclosure

The Company fully supports the continuous disclosure regime in Australia. Continuous disclosure is a standard agenda item at all Board meetings and the Company makes regular announcements to the market on commercial activities, which may have a material influence on the share price.

Material presentations that are made to analysts or investors are posted on the Company's website. If the presentations contain information that has not been in the public domain, and that would have a material effect on the share price, the presentation is sent to the ASX prior to the presentation being made.

All managers in the Company have received training on continuous disclosure and are aware of the Company's obligations with regard to continuous disclosure.

## Principle 6

### Respect the rights of shareholders

Communication with shareholders is of critical importance to the Company. The annual report, half-year report and annual general meeting are all important communication forums. The company welcomes questions from shareholders at any time and these will be answered within the confines of information that is not market sensitive or already is in the public domain. Also, all announcements made by the Company to the ASX are posted on the Company's website. The Company continually reviews its communications with shareholders and uses a number of formats including newsletters and roadshows to update shareholders on the progress of the Company.

The external auditor attends the annual general meeting and is available to answer any questions with regard to the conduct of the audit and their report.

The following documents in relation to corporate governance are available on the Company's website:

General

- Corporate Governance Statement

Codes and Conducts

- Board Charter
- Nominations Committee charter
- Code of Conduct
- Audit and Compliance Committee charter
- Remuneration Committee charter
- Remuneration policy
- Constitution

Policies and procedures

- Share trading
- Make timely and balanced disclosures

## Principle 7

### Recognise and manage risk

The Audit and Compliance committee as part of its charter considers the management of risk. The Company carries out a formal risk review on an annual basis. Risks identified have appropriate actions developed or mitigating circumstances documented. The Company has a risk awareness culture whereby any potential risks identified are brought to the attention of management for appropriate action. The committee considers on an annual basis the insurance policies the Company has in place. The Chief Financial Officer, on an annual basis, reports on the internal control environment within the company and is responsible for immediately alerting the committee if any material breakdowns in internal control occur.

The Chief Financial Officer has made representations to the Audit and Compliance committee on the system of risk management and internal compliance and control, which implements the policies adopted by the Board. The Chief Financial Officer have also represented that to the best of their knowledge the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. The representation by the Chief Financial Officer is supported by representations to them from all senior executives.

However, even well designed, implemented and monitored risk management and internal controls cannot guarantee that adverse events or losses will not arise and can provide only a reasonable level of assurance. All control systems have inherent limitations and are subject to breakdowns from time to time. No evaluation of the Company's risk management and internal control systems can provide absolute assurance that all risks are managed or all control issues within the organisation have been detected.

# Corporate Governance Statement

### Principle 8

### Encourage enhanced performance

The Board carries out a Board assessment on an annual basis. The previous review was carried out internally following a process based on recommendations by the Australian Institute of Company Directors.

The Company is currently conducting a search for an independent Non-executive Chairman. The Board believes that it is preferable to wait until this appointment before the next formal review of Board performance is carried out.

Senior executives are subject to a formal performance review process on an annual basis. The focus of the performance review is to set specific objectives that are aligned to the Company's business plan, and monitor performance against them for each executive.

### Principle 9

### Remunerate fairly and responsibly

The Board has a Remuneration committee. It has a formal charter and its members are George Jessup (Chairman), Robin Beaumont and Chris Harris.

The Company's remuneration policy is described in the Remuneration Report contained within the Directors' Report.

The committee considers the remuneration of the Chief Executive Officer and direct reports, as well as fees paid to non-executive directors. The committee also determines the overall remuneration framework for all employees in the Company.

### Principle 10

### Recognise the legitimate interests of stakeholders

The Code of Conduct formally documents the Company's approach to all stakeholders. The Company expects all its employees to act with the utmost integrity with all stakeholders. The Company does not make political donations, but does participate in a number of industry bodies that promote and support the industries in which the Company works.



# Financial report



The financial report covers both Arana Therapeutics Limited (ABN 98 002 951 877) as an Individual Entity and the Consolidated Entity consisting of Arana Therapeutics Limited and its Controlled Entities.

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

Level 2
37 Epping Road
Macquarie Park NSW 2113
Australia

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the Directors' Report on pages 24 to 29.

The financial report was authorised for issue by the directors on 12 November 2008. 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. All press releases, financial reports and other information are available on our web site:

www.arana.com

# Financial statements

## Income statements
## For the year ended 30 September 2008

| | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Notes | $'000 | $'000 | $'000 | $'000 |
| **Revenue from continuing operations** | 5 | **39,491** | 34,592 | **38,244** | 35,804 |
| Other income | 6 | **3,534** | 136,711 | **3,900** | 136,454 |
| Consumables expense | | **(2,310)** | (873) | **(1,108)** | (575) |
| Employee benefits expense | | **(11,208)** | (6,491) | **(6,518)** | (5,779) |
| Depreciation and amortisation expense | 8 | **(9,629)** | (2,832) | **(1,569)** | (1,093) |
| External research and development expense | 8 | **(12,775)** | (6,427) | **(10,848)** | (6,501) |
| Cost of premises | | **73** | (2,057) | **647** | (2,042) |
| Corporate and patent expense | | **(4,675)** | (5,692) | **(3,774)** | (5,247) |
| Impairment of property, plant and equipment | 8 | **-** | (1,179) | **-** | (1,179) |
| Impairment of intangibles | 8 | **-** | (2,831) | **-** | (2,831) |
| Impairment of other financial asset held for sale | 8 | **-** | - | **-** | (15,000) |
| Other expenses | | **(3,367)** | (2,513) | **(2,361)** | (3,008) |
| Finance costs | 8 | **(686)** | (818) | **(343)** | (339) |
| **Profit (Loss) before income tax** | | **(1,552)** | 139,590 | **16,270** | 128,664 |
| Income tax expense | 9 | **(3,028)** | (216) | **(6,862)** | (1,818) |
| **Profit (Loss) from continuing operations** | | **(4,580)** | 139,374 | **9,408** | 126,846 |
| Profit (Loss) from discontinued operation | 10 | **488** | (5,960) | **-** | - |
| **Profit (Loss) attributable to members of Arana Therapeutics Limited** | | **(4,092)** | 133,414 | **9,408** | 126,846 |

| | | Cents | Cents | | |
|---|---|---|---|---|---|
| **Earnings per share for profit (loss) from continuing operations attributable to the ordinary equity holders of the company:** | | | | | |
| Basic earnings per share | 40 | **(1.95)** | 81.65 | | |
| Diluted earnings per share | 40 | **(1.95)** | 81.28 | | |
| **Earnings per share for profit (loss) attributable to the ordinary equity holders of the company:** | | | | | |
| Basic earnings per share | 40 | **(1.74)** | 78.17 | | |
| Diluted earnings per share | 40 | **(1.74)** | 77.80 | | |

*The above income statements should be read in conjunction with the accompanying notes.*



## Balance sheets
## As at 30 September 2008

| | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Notes | $'000 | $'000 | $'000 | $'000 |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 11 | **181,560** | 169,006 | **181,089** | 166,430 |
| Trade and other receivables | 12 | **12,789** | 25,524 | **12,223** | 24,817 |
| Current tax receivables | | **-** | 563 | **-** | 570 |
| Derivative financial instruments | 13 | **-** | 48 | **-** | 48 |
| Other financial assets | 14 | **1,908** | - | **1,908** | - |
| Assets of discontinuing operation held for sale | 10 | | 271 | **-** | - |
| Total current assets | | **196,257** | 195,412 | **195,220** | 191,865 |
| **Non-current assets** | | | | | |
| Receivables | 16 | **483** | - | **483** | - |
| Other financial assets | 18 | **-** | - | **150,968** | 119,968 |
| Property, plant and equipment | 19 | **11,166** | 1,233 | **5,828** | 661 |
| Deferred tax assets | 20 | **-** | 2,901 | **-** | 2,152 |
| Intangible assets | 21 | **121,607** | 129,938 | **9,249** | 9,979 |
| Total non-current assets | | **133,256** | 134,072 | **166,528** | 132,760 |
| **Total assets** | | **329,513** | 329,484 | **361,748** | 324,625 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | **5,556** | 4,112 | **29,430** | 4,096 |
| Derivative financial instruments | 13 | **1,399** | - | **1,399** | - |
| Provisions | 23 | **53** | 430 | **53** | 430 |
| Other liabilities | 24 | **1,565** | - | **1,565** | - |
| Liabilities directly associated with assets of a discontinued operation held for sale | 10 | **-** | 1,616 | **-** | - |
| Total current liabilities | | **8,573** | 6,158 | **32,447** | 4,526 |
| **Non-current liabilities** | | | | | |
| Other liabilities | 25 | **16,300** | 11,841 | **8,473** | 5,926 |
| Deferred tax liabilities | 26 | **-** | 942 | **-** | 855 |
| Provisions | 27 | **567** | 1,297 | **394** | 1,259 |
| Total non-current liabilities | | **16,867** | 14,080 | **8,867** | 8,040 |
| **Total liabilities** | | **25,440** | 20,238 | **41,314** | 12,566 |
| **Net assets** | | **304,073** | 309,246 | **320,434** | 312,059 |
| **EQUITY** | | | | | |
| Contributed equity | 28 | **215,478** | 215,478 | **215,478** | 215,478 |
| Reserves | 29(a) | **(356)** | 725 | **(300)** | 733 |
| Retained profits | 29(b) | **88,951** | 93,043 | **105,256** | 95,848 |
| **Total equity** | | **304,073** | 309,246 | **320,434** | 312,059 |

*The above balance sheets should be read in conjunction with the accompanying notes.*

# Financial statements

## Statements of changes in equity
## For the year ended 30 September 2008

| | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Notes | $'000 | $'000 | $'000 | $'000 |
| **Total equity at the beginning of the financial year** | | **309,246** | 85,945 | **312,059** | 95,318 |
| Changes in fair value of cash flow hedges, net of income tax | 29 | **(959)** | 48 | **(959)** | 48 |
| Net income tax recognised directly in equity | 29 | **59** | 101 | **59** | 101 |
| Exchange differences on translation of foreign operations | 29 | **(48)** | (8) | **-** | - |
| **Net income recognised directly in equity** | | **(948)** | 141 | **(900)** | 149 |
| **Profit (Loss) for the year** | | **(4,092)** | 133,414 | **9,408** | 126,846 |
| **Total recognised income and expense for the year** | | **(5,040)** | 133,555 | **8,508** | 126,995 |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | |
| Contributions of equity, net of transaction costs | 28 | **-** | 89,699 | **-** | 89,699 |
| Arana Therapeutics employee performance share plan | 29 | **(133)** | 47 | **(133)** | 47 |
| | | **(133)** | 89,746 | **(133)** | 89,746 |
| **Total equity at the end of the financial year** | | **304,073** | 309,246 | **320,434** | 312,059 |
| **Total recognised income and expenses for the financial year attributable to members of Arana Therapeutics Limited** | | **(5,173)** | 133,555 | **(8,375)** | 126,995 |

*The above statements of changes in equity should be read in conjunction with the accompanying notes.*

## Cash flow statements
## For the year ended 30 September 2008

| | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Notes | $'000 | $'000 | $'000 | $'000 |
| **Cash flows from operating activities – continuing operations** | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | **27,596** | 22,227 | **24,927** | 22,351 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(34,051)** | (23,528) | **(21,315)** | (21,944) |
| | | **(6,455)** | (1,301) | **3,612** | 407 |
| Interest received | | **12,193** | 8,577 | **12,148** | 8,655 |
| Other revenue | | **1,503** | 234 | **1,055** | 144 |
| Income taxes paid | | **(143)** | (1,619) | **(143)** | (1,619) |
| | | **7,098** | 5,891 | **16,672** | 7,587 |
| **Cash flows from operating activities – discontinued operation** | 10 | **(937)** | (2,764) | **-** | - |
| **Net cash inflow from operating activities** | 37 | **6,161** | 3,127 | **16,672** | 7,587 |
| **Cash flows from investing activities – continuing operations** | | | | | |
| Purchase of subsidiary, net of cash acquired | | **-** | (20,085) | **-** | (24,294) |
| Purchase of business, net of cash acquired | | **-** | (5,169) | **-** | - |
| Purchase of property, plant and equipment | | **(8,604)** | (821) | **(5,766)** | (588) |
| Proceeds from sale of (payment for) investments – unlisted securities | 6 | **17,709** | 151,071 | **17,709** | 151,071 |
| Loans to controlled entities | | **-** | - | **(12,279)** | (8,737) |
| | | **9,105** | 124,996 | **(336)** | 117,452 |
| **Cash flows from investing activities – discontinued operation** | 10 | **(1,070)** | (511) | **-** | - |
| **Net cash inflow (outflow) from investing activities** | | **8,035** | 124,485 | **(336)** | 117,452 |
| **Cash flows from financing activities – continuing operations** | | | | | |
| Proceeds from (payment for) security deposits | 14 | **(1,908)** | 858 | **(1,908)** | 858 |
| **Net cash inflow from financing activities** | | **(1,908)** | 858 | **(1,908)** | 858 |
| **Net increase in cash and cash equivalents** | | **12,288** | 128,470 | **14,428** | 125,897 |
| Cash and cash equivalents at the beginning of the financial year | | **169,038** | 40,687 | **166,430** | 40,652 |
| Effects of exchange rate changes on cash and cash equivalents | | **234** | (119) | **231** | (119) |
| **Cash and cash equivalents at end of year** | 11 | **181,560** | 169,038 | **181,089** | 166,430 |
| Non-cash investing and financing activities | 38 | | | | |
| Financing arrangements | 39 | | | | |

*The above cash flow statements should be read in conjunction with the accompanying notes.*

# Notes to the Financial statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Arana Therapeutics Limited as an individual entity and the consolidated entity consisting of Arana Therapeutics Limited and its subsidiaries.

### (a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

*Compliance with IFRSs*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRSs ensures that the consolidated and parent entity financial statements and notes of Arana Therapeutics Limited comply with International Financial Reporting Standards (IFRSs).

*Historical cost convention*

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

*Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### (b) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Arana Therapeutics Limited ("company" or "parent entity") as at 30 September 2008 and the results of all subsidiaries for the year then ended. Arana Therapeutics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

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 Arana Therapeutics Limited.

*(ii) Joint venture entities*

The interest in a joint venture company is accounted in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the company is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet.

Profits or losses on transactions establishing the joint venture company and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture company on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

### (c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

### (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 Arana Therapeutics Limited'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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in the recognised asset or liability as a qualifying fair value hedge, or deferred in equity as qualifying cash flow hedges or are attributable to part of the net investment in a foreign operation.



*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- financial 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 as a separate component of equity.

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 shareholders' equity. 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 and income

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

*(i) Sales revenue*

Sales revenue represents revenue earned from the sale of the entity's products and services, net of returns, trade allowances and duties and taxes paid. Revenue is recognised when goods have been despatched to a customer and the associated risks have passed to the customer.

*(ii) Licensing income*

Licensing income represents revenues on the sale or licensing of technology, and is recognised where there is a signed unconditional contract of sale, and it is probable that the revenue will be received by the entity.

*(iii) Royalties*

Royalties are recognised over the period to which they relate and it is possible to reliably estimate their value, and it is probable that the revenue will be received by the entity.

*(iv) Research collaboration agreements*

Research agreements may typically contain licence fees, non-refundable upfront fees, research and development service fees and milestone payments. Revenue under research collaboration agreements is recognised as earned on a straight line basis over the contractual agreement or the development period as they reflect the level of effort required over the performance period. Unamortised research revenue is recognised on the balance sheet as deferred revenue in other liabilities.

*(v) Lease income*

Sub-lease rental income from operating leases is recognised in income on a straight-line basis over the lease term.

*(vi) Interest income*

Interest income is recognised on a time proportion basis using the effective interest rate 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 Group will comply with all attached conditions. 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.

### (g) Income tax

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

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, the 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 balance sheet date and are expected to apply when the related deferred income tax is realised or the deferred income tax asset 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 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.

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

*Tax consolidation legislation*

Arana Therapeutics Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Arana Therapeutics Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a separate taxpayer in its own right. In addition to its own current and deferred tax amounts, Arana Therapeutics Limited also

# Notes to the financial statements

*1. Summary of significant accounting policies (continued)*

recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The members of the tax consolidated group have entered into a tax sharing agreement and a tax funding arrangement, which specifies the tax sharing and funding obligations of the members of the tax consolidated group. The tax funding arrangement requires payments to / from the head entity equal to the current tax liability assumed by the head entity and any tax loss deferred tax assets assumed by the head entity. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

### (h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. 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.

Incentives received on entering operating leases are recognised as liabilities, and amortised over the lease period.

The present value of future payments for surplus leased space under non-cancellable operating leases which are onerous contracts is recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased space will be of no future benefit to the Group. The net future lease payments are discounted using the interest rates implicit in the leases.

### (i) Business combinations

The purchase 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. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred and measurement and probability can be determined, the amounts payable in the future are discounted to their present value as at the date of exchange and recognised as part of the costs of acquisition. 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.

### (j) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for Goodwill which is tested for impairment on an annual basis. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### (k) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (l) Trade receivables

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of sale. The settlement of other receivables is dependent upon conditions contained in underlying business agreements.

Collectibility of trade and other receivables are reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of trade and other receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised 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 purchase price, inward freight, handling costs and direct labour. Costs are assigned to individual items of stock on the basis of average costs. 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) Disposal groups held for sale and discontinuing operations

Disposal groups are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the disposal group to fair value, less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell a disposal group, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the disposal group is recognised at the date of recognition.

Non current assets (including those of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

The assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of the disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinuing operation is a component of the entity that is planned to be disposed of, or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of the discontinuing operations are presented separately on the face of the income statement.

### (o) Investments and other financial assets

*Classification*

The Group classified its investments in the following categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified held-to-maturity, re-evaluates this designation each reporting date.

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

*(ii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

*(iii) Available-for-sale financial assets - Investments in unlisted securities*

Available-for-sale financial assets are non-derivative financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group's former investments in the Biopep joint venture and Domantis Limited, an unlisted entity, were captured by this category of financial asset under the criteria of AASB 139. The Group has applied provisions under AASB 1 ***Presentation of Financial Statements*** and previously disclosed this category of financial asset in the balance sheet as Financial assets – investments in unlisted securities as this presentation was more relevant to the understanding of the Group's investment in the unlisted security.

Investments in unlisted entities are carried at the lower of cost and recoverable amount. The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial asset is impaired. Investments in unlisted entities are included in non-current assets.

*Recognition and derecognition*

Regular purchases and sales of investments and other assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

*Impairment*

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

### (p) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The accounting for subsequent changes in fair value method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of the derivative financial instruments used for hedging purposes are disclosed in note 13. The full fair value of the

# Notes to the financial statements

*1. Summary of significant accounting policies (continued)*

hedging derivative is classified as a current asset or liability when the remaining maturity of the hedge item is less than 12 months.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

*(ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## (q) 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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Cost of leasehold improvements includes the future costs that may be incurred to restore the leased premises to their original condition. 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 is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Production and laboratory equipment | 3-10 years |
| Office equipment, furniture and fittings | 3-10 years |
| Leasehold improvements | 5- 9 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.

## (r) Intangible assets

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

*(ii) Research and development*

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred. Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised, which can be reliably measured, comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit. Amortisation is charged from the point at which the asset is ready for use.

*(iii) Intellectual property licences*

Licences 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 acquiring the technology licences over their estimated useful lives. The estimated useful life equates to the life of the underlying patents which is currently 17 years.

*(iv) Identifiable intellectual property*

Intellectual property comprising portfolios of patents and other related intellectual property, 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 acquiring the identifiable intellectual property over their estimated useful lives. The estimated useful life equates to the life of the underlying patents which are currently 12 to 18 years.

## (s) Trade and other payables

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

## (t) 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 and provisions for employee benefits, 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. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

*(ii) Long service leave*

The liability for long service leave is recognised in the 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) Profit sharing and bonus plans*

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other payables where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*(iv) Retirement benefit obligations*

Contributions to defined contribution funds made on behalf of all employees of the Group are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(v) Share-based payments*

Share-based compensation benefits are provided to employees via the Arana Performance Share Plan and formerly via Arana Share Option plans which are now closed.

*Shares and options granted before 7 November 2002*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

*Shares and options granted after 7 November 2002 and vested after 1 January 2005*

The fair value of performance share rights granted under the Arana Performance Share Plan is 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 shares.

The fair value at grant date is independently determined using a Monte-Carlo simulation valuation model that takes into account the exercise price, the term of the performance share right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance share right, 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 performance share right.

The fair value of the performance share rights granted does not include the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance share rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of performance share rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of the performance share rights, the balance of the share-based payments reserve relating to those share rights is transferred to share capital.

## (u) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## (v) Earnings per share

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit 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 year, adjusted for bonus elements in ordinary shares issued during the 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.

## (w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for current reporting period. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

# Notes to the financial statements

*1. Summary of significant accounting policies (continued)*

***(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8***

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

***(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101***

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 October 2009.

***(iii) AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations***

AASB 2008-1 was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 October 2009, but it is not expected to affect the accounting for the Group's share-based payments.

***(iv) Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

In May 2008, the IASB made amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements. The new rules will apply to financial reporting periods commencing on or after 1 January 2009. Amendments to the corresponding Australian Accounting Standards are expected to be issued shortly. The Group will apply the revised rules from 1 October 2008. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

***(v) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12)***

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group.

***(vi) Improvements to IFRSs***

In May 2008, the IASB issued a number of improvements to existing International Financial Reporting Standards. The amendments will generally apply to financial reporting periods commencing on or after 1 January 2009, except for some changes to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations regarding the sale of the controlling interest in a subsidiary which will apply from 1 October 2009. We expect the AASS to make the same changes to Australian Accounting Standards shortly. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

## (x) 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.

## (y) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, 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.



## 2 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 programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by management under policies approved by the Board of Directors and the Audit and Compliance Committee.

The Group uses derivative financial instruments such as foreign exchange contracts and foreign currency deposits to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. Cash and cash equivalents are invested exclusively with financial institutions, rated between A to AA, with capital preservation being the primary investment objective.

The Group and the parent entity hold the following financial instruments:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **181,560** | 169,006 | **181,089** | 166,430 |
| Trade and other receivables | **12,700** | 25,405 | **12,201** | 24,793 |
| Derivative financial instruments | **-** | 48 | **-** | 48 |
| Other Financial Assets | **1,908** | - | **1,908** | - |
| | **196,168** | 194,459 | **195,198** | 191,271 |
| **Financial liabilities** | | | | |
| Trade and other payables | **5,101** | 4,112 | **29,430** | 4,096 |
| Provisions | **253** | 292 | **200** | 254 |
| Derivative financial instruments | **1,399** | - | **1,399** | - |
| Other payables | **12,056** | 11,649 | **5,800** | 5,735 |
| | **18,809** | 16,053 | **36,829** | 10,085 |

## (a) Market risk

*(i) Foreign exchange risk*

The Group and the parent entity operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and pounds sterling.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency other than the Australian dollar. The risk is measured using sensitivity analysis and cash flow forecasting.

The Board has approved a policy to manage foreign exchange risk against the Australian dollar. The Group risk management policy is to hedge:

1. Anticipated income cashflows in US dollars for the subsequent 12 months.
2. Anticipated research and development cash flows in US dollars for the subsequent 12 months.
3. R&D manufacturing cost commitments in pounds sterling for the subsequent 12 months.

# Notes to the financial statements

*2. Financial risk management (continued)*

The policy implemented for US dollar revenues is to utilise derivative financial instruments that provide protection should the Australian dollar appreciate in value, but enabling the Group to access 50% of the benefit should the Australian dollar depreciate in value. The Group has implemented this policy with an average exchange rate of 0.9434 through to May 2009. The Group's exposure to foreign currency risk at the reporting date was as follows:

| | 30 September 2008 | | 30 September 2007 | |
|---|---|---|---|---|
| | Group | | Group | |
| | **USD $'000** | **GBP $'000** | USD $'000 | GBP $'000 |
| Cash and cash equivalents | **913** | **2,315** | - | 981 |
| Trade and other receivables | **5,865** | **-** | 5,205 | 7,383 |
| Trade and other payables | **(143)** | **(249)** | (54) | (102) |
| Derivative financial instruments Sell foreign currency (cashflow hedges) | **(7,519)** | **-** | - | (7,133) |
| Other payables | **-** | **(2,604)** | - | (2,452) |
| | **(884)** | **(538)** | 5,151 | (1,323) |

The carrying amounts of the parent entity's financial assets and liabilities denominated in foreign currency at the reporting date was as follows:

| | 30 September 2008 | | 30 September 2007 | |
|---|---|---|---|---|
| | Parent | | Parent | |
| | **USD $'000** | **GBP $'000** | USD $'000 | GBP $'000 |
| Cash and cash equivalents | **489** | **2,315** | - | 981 |
| Trade and other receivables | **5,665** | **-** | 5,205 | 7,383 |
| Trade and other payables | **-** | **(249)** | | (102) |
| Derivative financial instruments Sell foreign currency (cashflow hedges) | **(7,519)** | **-** | - | (7,133) |
| Other payables | **-** | **(2,604)** | - | (2,452) |
| | **(1,365)** | **(538)** | 5,205 | (1,323) |

*Group and parent sensitivity*

The foreign exchange exposures of the Group and parent entity are materially the same. Based on the financial instruments held at 30 September 2008, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's and parent's pre-tax profit for the year would have been $318,000 higher/$318,000 lower (2007 : $668,000 higher/$668,000 lower). Profit is less sensitive to movements in the Australian dollar/US dollar exchange rates in 2008 than 2007 because of the hedging financial instruments.

Other components of equity of the Group and parent would have been $561,000 lower/$370,000 higher (2007 : $nil higher/$nil lower) had the Australian dollar weakened/strengthened by 10% against the USD, arising from foreign forward exchange contracts designated as cash flow hedges.

In addition, based on the financial instruments held at 30 September 2008, had the Australian dollar weakened/strengthened by 10% against the GBP with all other variables held constant, the Group's and parent's pre-tax profit for the year would have been $644,000 lower/$644,000 higher (2007 : $574,000 lower/$574,000 higher). Profit is more sensitive to movements in the Australian dollar/GBP exchange rates in 2008 than 2007 because of the unwinding of the discount on GBP liability for deferred consideration.

Other components of equity of the Group and parent would have been $nil higher/$nil lower (2007 : $719,000 higher/$nil lower) had the Australian dollar weakened/strengthened by 10% against the GBP, arising from foreign forward exchange contracts designated as cash flow hedges.

The Group's exposure to other foreign exchange movements is not material.



*(ii) Cash flow and fair value interest rate risk*

The Group's and parent entity's main interest rate risk arises from investment of available funds in short term cash deposit investments. All available funds are invested by the parent entity. The deposits are held over varying terms from 30 days to 180 days.

During 2008 and 2007, the Group's investments at fixed rates were denominated in Australian dollars, US dollars and GBP. As at the reporting date, the Group had the following fixed rate cash deposit investments:

| | 30 September 2008 | | 30 September 2007 | |
|---|---|---|---|---|
| | Group | | Group | |
| | **Weighted Average interest rate %** | **Balance $'000** | Weighted Average interest rate % | Balance $'000 |
| Cash and cash equivalents | **7.89** | **181,560** | 6.88 | 169,006 |

*Group sensitivity*

For the year ended 30 September 2008, if interest rates had changed by -/+ 50 basis points from the rates throughout the year, with all other variables held constant, pre-tax profit for the year would have been $829,000 lower/higher (2007 : change of 50 bps: $712,000 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, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to business partners, including outstanding receivables.

The Group's policy is to limit the amount of credit exposure to any one financial institution by limiting the total % and $ value of deposits that can be placed with one bank or financial institution. The Group's policy is to deal with banks and financial institutions with independent ratings between A and AA, with a weighting towards AA.

Business partner credit risk is managed by assessing the credit quality of the partner, taking into account its financial position, past experience and other factors. The review of credit risk is continually managed by management as is the ageing of receivable balances.

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| **Trade receivables** | | | | |
| Existing customers with no defaults in past 12 months | **6,718** | 4,319 | **6,718** | 4,160 |
| | **6,718** | 4,319 | **6,718** | 4,160 |
| **Cash at bank and short term deposits** | | | | |
| AA | **118,360** | 74,006 | **117,889** | 71,430 |
| AA- | **-** | 50,000 | **-** | 50,000 |
| A+ | **49,200** | 45,000 | **49,200** | 45,000 |
| A | **14,000** | - | **14,000** | - |
| | **181,560** | 169,006 | **181,089** | 166,430 |
| **Other Financial Asset** | | | | |
| AA | **1,908** | - | **1,908** | - |
| | **1,908** | - | **1,908** | - |

Other financial assets primarily represent cash held on deposit to cover bank guarantee facilities related to operating leases - refer note 14.

# Notes to the financial statements

*2. Financial risk management (continued)*

## (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.

The tables below analyse the Group's and the parent entity's financial liabilities, net and gross settled derivative financial instruments 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.

| Group<br>At 30 September 2008 | Less than 6 months $'000 | Between 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total Contractual Cash flows $'000 | Carrying Amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| Non-interest bearing | 5,101 | 53 | 13,826 | 200 | 19,180 | 17,410 |
| **Total non-derivatives** | **5,101** | **53** | **13,826** | **200** | **19,180** | **17,410** |
| **Derivatives** | | | | | | |
| Gross settled | | | | | | |
| - (inflow) | (6,170) | (1,877) | - | - | (8,047) | (8,047) |
| - outflow | 7,261 | 2,185 | - | - | 9,446 | 9,446 |
| **Total derivatives** | **1,091** | **308** | **-** | - | **1,399** | **1,399** |

| Group<br>At 30 September 2007 | Less than 6 months $'000 | Between 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total Contractual Cash flows $'000 | Carrying Amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| Non-interest bearing | 4,112 | 62 | - | 14,056 | 18,230 | 16,053 |
| **Total non-derivatives** | **4,112** | **62** | **-** | **14,056** | **18,230** | **16,053** |
| **Derivatives** | | | | | | |
| Gross settled | | | | | | |
| - (inflow) | (17,710) | - | - | - | (17,710) | (17,710) |
| - outflow | 17,662 | - | - | - | 17,662 | 17,662 |
| **Total derivatives** | **(48)** | **-** | **-** | - | **(48)** | **(48)** |

| Parent<br>At 30 September 2008 | Less than 6 months $'000 | Between 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total Contractual Cash flows $'000 | Carrying Amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| Non-interest bearing | 3,678 | 25,805 | 6,826 | 147 | 36,456 | 35,430 |
| **Total non-derivatives** | **3,678** | **25,805** | **6,826** | **147** | **36,456** | **35,430** |
| **Derivatives** | | | | | | |
| Gross settled | | | | | | |
| - (inflow) | (6,170) | (1,877) | - | - | (8,047) | (8,047) |
| - outflow | 7,261 | 2,185 | - | - | 9,446 | 9,446 |
| **Total derivatives** | **1,091** | **308** | **-** | - | **1,399** | **1,399** |

| Parent<br>At 30 September 2007 | Less than 6 months $'000 | Between 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total Contractual Cash flows $'000 | Carrying Amount (assets)/ liabilities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| Non-interest bearing | 2,941 | 1,217 | - | 6,826 | 18,176 | 15,999 |
| **Total non-derivatives** | **2,941** | **1,217** | **-** | **6,826** | **18,176** | **15,999** |
| **Derivatives** | | | | | | |
| Gross settled | | | | | | |
| - (inflow) | (17,710) | - | - | - | (17,710) | (17,710) |
| - outflow | 17,662 | - | - | - | 17,662 | 17,662 |
| **Total derivatives** | **(48)** | **-** | **-** | - | **(48)** | **(48)** |

## (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

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 fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial instruments.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Intangibles*

In accordance with the Group accounting policy (refer note 1(r)) intangibles including goodwill, research and development costs, intellectual property licences and acquired intellectual property are recorded as assets in the balance sheet. At 30 September 2008 these total $121,607,000 (2007 : $129,938,000).

The Group continually monitors the performance of its research and development programmes conducted in these areas to ensure that these assets have not suffered any impairment, in accordance with the accounting policy stated in note 1(j).

These recoverability reviews of intellectual property carrying values in the balance sheet takes into account estimates and judgements made as to expected milestone revenues and ongoing revenue streams that may be derived by the Group on the successful commercialisation of the technology.

### (b) Critical judgements in applying the entity's accounting policies

*(i) Revenue recognition*

The Group has recognised research collaboration fees, licensing and royalty revenues from continuing operations for the year, amounting to $25,699,000 (2007 : $24,745,000). As at 30 September 2008 $7,206,000 (2007 : $5,893,000) has been accrued as receivable. Deferred revenue of $3,522,000 has also been recognised in other liabilities. These revenues have been recognised in accordance with the Group accounting policy (refer note 1 (e)) on the basis that the revenues have either been received, or earned or are due, and it is probable that they will be received. The amount accrued at 30 September 2008 can be reliably estimated with reference to the historical trend of actual royalty and licence income received.

*(ii) Liabilities for deferred consideration*

The Group has recognised non-current other payables of $12,056,000 as at 30 September 2008 (2007 : $11,841,000). These represent the deferred consideration payable on the acquisition of Promics Limited and the cancer therapeutic antibody business assets of Scancell Limited. These liabilities have been recognised in accordance with Group accounting policy (refer note 1(i)) on the basis that they can be measured and their probability can be determined.

## 4 SEGMENT INFORMATION

### (a) Description of segments

**Business segments**

The principal activities of the Group are research and development, investment in and licensing of technology, and the production, formulation and marketing of protein-based products. These are organised by segment as they relate to either the human health or animal health activities, unallocated represents corporate activities including treasury operations and investments in financial assets. The animal health business was sold in January 2008.

**Geographical segments**

Australia is the home country of the parent entity, which is also the main operating entity. While human and animal health activities earn revenues in all geographical segments, human health assets are located in Europe, America and Australia, and animal health assets are located in Europe, the Americas and Australia.

### (b) Primary reporting format - business segments

| 2008 | Human Health | Unallocated | Total Continuing Operations | Discontinued Operation Animal Health | Group |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Sales to external customers | 25,699 | - | 25,699 | 590 | 26,289 |
| Other revenue / income | 3,163 | 382 | 3,545 | 26 | 3,571 |
| Total segment revenues | 28,862 | 382 | 29,244 | 616 | 29,860 |
| Segment result | (22,323) | 7,492 | (14,831) | (324) | (15,155) |
| Net Interest income | | | 13,781 | 1 | 13,782 |
| Profit (loss) before income tax | | | (1,050) | (323) | (1,373) |
| Income tax (expense) benefit | | | (3,028) | 309 | (2,719) |
| Profit (loss) for the year | | | (4,078) | (14) | (4,092) |
| Segment assets | 144,919 | 184,594 | 329,513 | - | 329,513 |
| Segment liabilities | 20,502 | 4,938 | 25,440 | - | 25,440 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 8,992 | 2,263 | 11,255 | 18 | 11,273 |
| Depreciation and amortisation expense | 8,923 | 706 | 9,629 | - | 9,629 |
| Impairment charges (credit) | - | - | - | (99) | (99) |

| 2007 | Human Health | Unallocated | Total Continuing Operations | Discontinued Operation Animal Health | Group |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Sales to external customers | 24,745 | - | 24,745 | 1,191 | 25,936 |
| Other revenue / income | - | 136,861 | 136,861 | 173 | 137,034 |
| Total segment revenues | 24,745 | 136,861 | 161,606 | 1,364 | 162,970 |
| Segment result | (2,240) | 132,133 | 129,893 | (5,712) | 124,181 |
| Net Interest income | | | 9,697 | 116 | 9,813 |
| Profit (loss) before income tax | | | 139,590 | (5,596) | 133,994 |
| Income tax (expense) benefit | | | (216) | (364) | (580) |
| Profit (loss) for the year | | | 139,374 | (5,960) | 133,414 |
| Segment assets | 138,448 | 190,765 | 329,213 | 271 | 329,484 |
| Segment liabilities | 12,880 | 5,742 | 18,622 | 1,616 | 20,238 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 128,325 | 144 | 128,469 | 511 | 128,980 |
| Depreciation and amortisation expense | 2,609 | 223 | 2,832 | 123 | 2,955 |
| Impairment charges | 2,831 | 1,179 | 4,010 | 3,312 | 7,322 |

# Notes to the financial statements

*4 Segment information (continued)*

## (c) Secondary reporting format - geographical segments

| | Segment revenues from sales to external customers | | Segment assets | | Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Americas | **19,432** | 21,061 | **6,899** | 6,062 | **537** | - |
| Europe | **3,369** | 2,819 | **909** | 374 | **-** | 208 |
| Australia & New Zealand | **1,472** | 977 | **321,325** | 323,048 | **8,245** | 128,772 |
| Asia | **2,016** | 1,079 | **380** | - | **-** | - |
| | **26,289** | 25,936 | **329,513** | 329,484 | **8,782** | 128,980 |

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

## 5 REVENUE

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| From continuing operations | | | | |
| ***Sales revenue*** | | | | |
| Sales and licensing | **7,508** | 8,114 | **6,304** | 8,114 |
| Royalties | **18,191** | 16,631 | **18,197** | 16,645 |
| | **25,699** | 24,745 | **24,501** | 24,759 |
| ***Other revenue*** | | | | |
| Interest received | **13,781** | 9,697 | **13,732** | 9,659 |
| Contract income from controlled entities | **-** | - | **-** | 365 |
| Contract income from discontinuing operation | **-** | - | **-** | 878 |
| Rents and sub-lease rentals | **-** | 138 | **-** | 138 |
| Sundry revenue | **11** | 12 | **11** | 5 |
| | **13,792** | 9,847 | **13,743** | 11,045 |
| | **39,491** | 34,592 | **38,244** | 35,804 |
| From discontinued operations | | | | |
| ***Sales revenue*** | | | | |
| Sales and licensing | **-** | - | **590** | 1,191 |
| | **-** | - | **590** | 1,191 |
| ***Other revenue*** | | | | |
| Interest received | **-** | - | **1** | 116 |
| Sundry revenue | **-** | - | **26** | 173 |
| | **-** | - | **27** | 289 |
| | **-** | - | **617** | 1,480 |



## 6 OTHER INCOME

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Net gain on sale of financial assets – held for sale (note 10 (c)) | **-** | - | **587** | - |
| Net gain on sale of financial assets – unlisted securities (note 16 and (a) below) | **-** | 136,077 | **-** | 136,077 |
| Net gain on foreign currency derivative financial instruments not qualifying as hedges (note 13) | **371** | 377 | **344** | 377 |
| Government grants (b) below | **3,163** | 257 | **2,969** | - |
| | **3,534** | 136,711 | **3,900** | 136,454 |

## (a) Net gain on sale of financial assets - unlisted securities - Domantis Limited

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Consideration received or receivable : | | | | |
| Cash | **-** | 151,058 | **-** | 151,058 |
| Offset liability for partly paid shares | **-** | 7,513 | **-** | 7,513 |
| Amount received January 2008 | **-** | 17,662 | **-** | 17,662 |
| Total disposal consideration | **-** | 176,233 | **-** | 176,233 |
| Carrying amount of investment in unlisted security (note 16) | **-** | (40,156) | **-** | (40,156) |
| Gain on sale before income tax | **-** | 136,077 | **-** | 136,077 |
| Income tax expense | **-** | - | **-** | - |
| Gain on sale after income tax | **-** | 136,077 | **-** | 136,077 |

## (b) Government Grants

Research and development grants of $3,163,000 (2007 : $257,000) were recognised as other income by the Group during the year. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

## 7 REVISION OF ESTIMATES - BUSINESS COMBINATION

On 28 August 2007 the parent entity acquired 100% of the issued share capital of EvoGenix Limited.

The business combination reported in the 30 September 2007 Financial Report was completed at that time using initial fair values that had been provisionally determined with reference to accounting policy note 1(i) and AASB 3 Business Combinations.

During the current year, Arana has completed an independent valuation of the assets acquired. The Group has adopted the valuation findings and determined that the assets acquired on acquisition also comprised Goodwill.

The effect on the Group, of this change in the assessment of assets acquired as part of the business acquisition has been recognised in the current reporting period. Comparative information in this financial report has not been restated because the effect is deemed to be immaterial, however the effect is summarised as follows:

### (a) At 28 August 2007

*(i) Intangibles*

The fair value of the intangibles $111,250,000 is re-assigned to account for the recognition of the Goodwill intangible of $22,236,000. The intangible value is assigned as:

| | |
|---|---|
| Identifiable intellectual property | $89,014,000 |
| Goodwill | $22,236,000 |

### (b) For the period ended 30 September 2007

*(i) Amortisation of identifiable intellectual property*

Amortisation expense of $602,000 is decreased by $44,000 to $558,000 to reflect the decreased value of the intellectual property and value apportionment over its effective useful life.

*(ii) Deferred tax expense*

Deferred tax expense of $41,000 is increased by $17,000 to $58,000 to reflect the increased value of the temporary timing differences for amortisation deductions.

### (c) Details of purchase consideration and assets and liabilities acquired

Details of the fair value of the assets and liabilities acquired are as follows:

| | 2007 Parent entity |
|---|---|
| | $'000 |
| Purchase consideration (refer below): | |
| Cash consideration | 20,866 |
| Ordinary shares in Peptech Limited (Arana Therapeutics Limited) | 89,699 |
| Direct costs relating to the acquisition | 3,428 |
| Total purchase consideration | 113,993 |
| Fair value of net identifiable assets (liabilities) acquired (refer to (b) below) | 91,757 |
| Goodwill (refer to note 21) | 22,236 |

*Purchase consideration*

| | 2007 Parent entity |
|---|---|
| | $'000 |
| Outflow of cash to acquire subsidiary, net of cash acquired: | |
| Cash consideration | 20,866 |
| Direct costs relating to the acquisition | 3,428 |
| | 24,294 |
| Less: Balances acquired | |
| Cash | (4,209) |
| Outflow of cash | 20,085 |

Total consideration comprised $0.15 cash and 0.5055 Peptech shares for every one EvoGenix share held by EvoGenix shareholders, which was determined to be the fair value of EvoGenix Limited on 7 May 2007 when the acquisition was announced. On completion 70,908,877 shares in the parent entity were issued as part of the purchase consideration, the fair value of those instruments was $89,699,726 or $1.265 per share.

*Assets and liabilities acquired*

The assets and liabilities arising from the acquisition of EvoGenix Limited are as follows:

| | Acquiree's carrying amount | Final Fair value at 28 August 2007 | Provisional Fair value at 30 September 2007 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Cash | 4,209 | 4,209 | 4,209 |
| Trade and other receivables | 504 | 492 | 492 |
| Identifiable intellectual property | 4,112 | 89,014 | 111,250 |
| Plant and equipment | 373 | 373 | 373 |
| Trade and other payables | (2,010) | (2,010) | (2,010) |
| Provisions | (321) | (321) | (321) |
| Net assets | 6,867 | 91,757 | 113,993 |

## 8 EXPENSES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| **Profit before income tax includes the following specific expenses:** | | | | |
| ***Depreciation*** | | | | |
| Leasehold improvements | **322** | 148 | **214** | 147 |
| Production and laboratory equipment | **576** | 151 | **265** | 110 |
| Office equipment and furniture | **400** | 127 | **360** | 125 |
| Total depreciation | **1,298** | 426 | **839** | 382 |
| ***Amortisation*** | | | | |
| Identifiable intellectual property | **8,331** | 2,303 | **730** | 608 |
| Licence fee | **-** | 103 | **-** | 103 |
| Total amortisation | **8,331** | 2,406 | **730** | 711 |
| Total depreciation and amortisation | **9,629** | 2,832 | **1,569** | 1,093 |
| ***Finance costs*** | | | | |
| Non current liabilities - unwinding of discount | **686** | 818 | **343** | 339 |
| ***Rental expense relating to operating leases*** | | | | |
| Minimum lease payments | **1,448** | 651 | **806** | 639 |
| Lease incentive benefits | **(456)** | (32) | **(304)** | (32) |
| Surplus leased space (refer note 23) | **(1,354)** | 1,274 | **(1,354)** | 1,274 |
| Total rental expense relating to operating leases | **(362)** | 1,893 | **(852)** | 1,881 |
| ***Foreign exchange gains and losses*** | | | | |
| (Net gain in 2008 refer note 6) | | | | |
| Net foreign exchange losses recognised in profit before income tax | **-** | 89 | **-** | 89 |
| ***Research and development (internal and external)*** | **24,109** | 11,638 | **16,796** | 9,758 |
| ***Impairment of assets*** | | | | |
| Property, plant and equipment | **-** | 1,179 | **-** | 1,179 |
| Technology licence fee | **-** | 2,831 | **-** | 2,831 |
| Other financial asset – held for sale | **-** | - | **-** | 15,000 |
| Total impairment charges | **-** | 4,010 | **-** | 19,010 |



## 9 INCOME TAX EXPENSE

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| **(a) Income tax expense** | | | | |
| Current tax | **763** | 1,238 | **5,556** | 3,001 |
| Deferred tax | **1,959** | (156) | **1,297** | (713) |
| (Over) under provided in prior years | **(3)** | (502) | **9** | (470) |
| Aggregate income tax expense | **2,719** | 580 | **6,862** | 1,818 |
| **Income tax expense is attributable to:** | | | | |
| Profit from continuing operations | **3,028** | 216 | **6,862** | 1,818 |
| Loss from discontinuing operation | **(309)** | 364 | **-** | - |
| | **2,719** | 580 | **6,862** | 1,818 |
| Deferred income tax expense (credit) included in income tax expense comprises: | | | | |
| Decrease (increase) in deferred tax assets (note 20) | **5,602** | (3,740) | **3,654** | (2,883) |
| (Decrease) increase in deferred tax liabilities (note 26) | **(3,643)** | 3,584 | **(2,357)** | 2,170 |
| | **1,959** | (156) | **1,297** | (713) |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | | | |
| Profit (Loss) from continuing operations | **(1,552)** | 139,590 | **16,270** | 128,664 |
| Profit (Loss) from discontinuing operation | **179** | (5,596) | **-** | - |
| | **(1,373)** | 133,994 | **16,270** | 128,664 |
| Prima facie tax at the Australian tax rate of 30% | **(411)** | 40,198 | **4,881** | 38,599 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| R&D allowance | **(316)** | (1,207) | **(109)** | (1,037) |
| Gain on disposal of investment | **(152)** | (40,823) | **-** | (40,823) |
| Impairment of assets | **-** | 1,843 | **-** | 5,349 |
| Share-based payments | **3** | 115 | **3** | 103 |
| Sundry items | **(77)** | (73) | **(82)** | 97 |
| | **(953)** | 53 | **4,693** | 2,288 |
| Differential in tax rate | **-** | (4) | **-** | - |
| Derecognition of deferred tax asset of discontinuing operation | **-** | 1.033 | **-** | - |
| Derecognition of deferred tax assets and liabilities | **1,959** | - | **1,297** | - |
| Foreign withholding tax paid | **745** | - | **728** | - |
| Future income tax benefit not recognised | **971** | - | **135** | - |
| (Over) under provision in prior years | **(3)** | (502) | **9** | (470) |
| | **2,719** | 580 | **6,862** | 1,818 |
| **(c) Amounts recognised directly in equity** | | | | |
| Aggregate amount of deferred tax arising in the reporting period and not recognised in net profit or loss but directly credited to equity | | | | |
| Current tax - credited directly to equity (note 27) | **59** | 101 | **59** | 101 |
| **(d) Unrecognised temporary differences and tax losses** | | | | |
| Unrecognised temporary differences and tax losses for which no deferred tax asset has been recognised | **16,310** | - | **5,047** | - |
| Potential tax benefit @ 30% | **4,893** | - | **1,514** | - |

*9 Income tax expense (continued)*

### (e) Tax consolidation legislation

Arana Therapeutics Limited and its wholly-owned Australian controlled entities decided to implement the tax consolidation legislation as of 1 October 2003. The accounting policy on implementation of the legislation is set out in note 1(g). The impact of the income tax expense for the year is disclosed in the tax reconciliation above.

The entities have also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly-owned entities will be reimbursed by Arana Therapeutics Limited for any current income tax benefits generated by them arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as current intercompany receivables. In the opinion of the directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of default by Arana Therapeutics Limited.

The wholly-owned entities have been fully compensated for any deferred tax assets transferred to Arana Therapeutics Limited, relating to unused tax losses or unused tax credits transferred to Arana Therapeutics Limited under the tax consolidation legislation.

### (f) Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30% for the parent and Group at 30 September 2008 are $6,069,840 (2007 : $6,654,857).

## 10 DISCONTINUED OPERATION

On 31 March 2007 Arana announced its intention to sell the animal health business and initiated an active programme to locate a buyer and complete the sale. The business was sold on 31 January 2008 and is reported in this financial report as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

### (a) Financial Performance and cash flow information

The financial performance and cash flow information presented are for the four months ended 31 January 2008 and the year ended 30 September 2007.

| | Consolidated | |
|---|---|---|
| | **2008 Period To 31 January** | 2007 Year To 30 September |
| | **$'000** | $'000 |
| Revenue | **617** | 1,480 |
| Expenses | **1,039** | 3,764 |
| Impairment credit (expense) | **99** | (3,312) |
| Loss before income tax | **(323)** | (5,596) |
| Income tax benefit (expense) | **309** | (364) |
| Loss after income tax benefit of discontinued operation | **(14)** | (5,960) |
| Gain on sale of the business before income tax | **502** | - |
| Income tax expense | **-** | - |
| Gain on sale of the business after income tax | **502** | - |
| Profit from discontinued operation | **488** | - |
| Net cash (outflows) from operating activities | **(937)** | (2,764) |
| Net cash (outflows) from investing activities | **(18)** | (511) |
| Net cash inflows from financing activities | **1,975** | - |
| Net increase (decrease) in cash generated by the discontinued operation | **1,020** | (3,275) |

### (b) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities as at date of disposal and at 30 September 2007 are:

| | Consolidated | |
|---|---|---|
| | **31 January 2008** | 30 September 2007 |
| | **$'000** | $'000 |
| Cash | **1,052** | 32 |
| Trade and other receivables | **213** | 239 |
| Property, plant and equipment | **18** | - |
| Total assets | **1,283** | 271 |
| Trade and other payables | **835** | 1.290 |
| Provisions | **164** | 127 |
| Deferred tax liabilities | **199** | 199 |
| Total liabilities | **1,198** | 1,616 |
| Net assets (liabilities) | **85** | (1,345) |

### (c) Details of the sale of the business

| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Consideration received or receivable: | | |
| Cash | **-** | - |
| Present value of amounts due under royalty licence agreement | **587** | - |
| Total disposal consideration | **587** | - |
| Carrying amount of net assets sold | **(85)** | - |
| Gain on sale before income tax | **502** | - |
| Income tax expense | **-** | - |
| Gain on sale after income tax | **502** | - |

# Notes to the financial statements

## 11 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash at bank and in hand | **684** | 844 | **213** | 273 |
| Deposits at call – Australian dollar | **175,128** | 165,865 | **157,128** | 163,860 |
| Deposits at call – US dollar | **591** | - | **591** | - |
| Deposits at call – Pounds sterling | **5,157** | 2,297 | **5,157** | 2,297 |
| | **181,560** | 169,006 | **181,089** | 166,430 |

### (a) Risk exposures

Information about the Group's and parent entity's exposure to interest rate risk and foreign currency risk is discussed in note 2.

## 12 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade receivables (refer (a) below) | **7,457** | 4,319 | **7,206** | 4,160 |
| | **7,457** | 4,319 | **7,206** | 4,160 |
| Loans to controlled entities | **-** | - | **593** | 593 |
| Provision for impairment - loans to controlled entities | **-** | - | **(593)** | (593) |
| Other receivables | **5,270** | 21,129 | **5,022** | 20,676 |
| Provision for impairment - other receivables | **(27)** | (43) | **(27)** | (43) |
| Prepayments | **89** | 119 | **22** | 24 |
| | **12,789** | 25,524 | **12,223** | 24,817 |

### (a) Trade receivables

At 30 September 2008 current trade receivables with a nominal value of $nil (2007 : $nil ) were impaired. The ageing of these receivables is all current.

### (b) Past due but not impaired

As of 30 September 2008 trade receivables of $nil (2007 : $nil ) were past due but not impaired. The other classes within trade and other receivables do not contain impaired assets and are not past due, with the exception of (c) below.

### (c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

Movements in the provision for impairment of other receivables are as follows:

| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| At 1 October | **43** | 71 |
| Unused amounts reversed | **(16)** | (28) |
| | **27** | 43 |

The creation and release of the provision for impaired other receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.



### (d) Foreign exchange and interest rate risk

Information about the Group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

### (e) Fair value and credit risk

The Group and parent entity have a concentration of credit risk, as $5,222,000 (2007 : $4,092,000) of the trade receivables balance is owing from one customer in respect of a royalty agreement. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

## 13 DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Current Assets* | | | | |
| Forward foreign exchange contracts - cash flow hedges (refer (a) (iii)) | **-** | 48 | **-** | 48 |
| | **-** | 48 | **-** | 48 |
| *Current Liabilities* | | | | |
| Forward foreign exchange contracts - cash flow hedges (refer (a) (iii)) | **1,399** | - | **1,399** | - |
| | **1,399** | - | **1,399** | - |
| | **1,399** | 48 | **1,399** | 48 |

### (a) Instruments used by the Group

***i) Deposits at call pounds sterling - fair value hedges***

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates.

The Group has non-cancellable contracts with external research and development providers payable in pounds sterling. In order to protect against exchange rate movements, the Group has established designated cash deposits denominated in pounds sterling. In the prior year the Group had a commitment for further capital subscriptions in Domantis Limited, payable in pounds sterling for which the investment asset and liability had been recognised.

These cash deposits cover 100% of the firm commitments payable in pounds sterling and will be drawn upon to settle the firm commitments when they are due. These commitments are due to be settled within the next year.

The hedging instruments are valued at mark to market. Changes in the fair value of the instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, to the extent that the hedge is effective. The ineffective portion is recognised in the income statement immediately. In the year ended 30 September 2008, the Group has recognised an amount of $nil (2007 : $377,000) for the ineffective amount of the hedge. At balance date these Group deposits were assets with a fair value of $5,157,000 (2007 : $2,297,000).

***(ii) Deposits at call US Dollars - cash flow hedges***

The Group incurs external research and development expenses payable in US dollars. In order to protect against exchange rate movements, the Group has established designated cash deposits denominated in US dollars.

These cash deposits cover 100% of the forecast purchases payable in US dollars and will be drawn upon to settle the payables when they are due. These payables are due to be settled within the next year.

The hedging instruments are valued with reference to published foreign exchange rates. Changes in the fair value of the instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, to the extent that the hedge is effective. The ineffective portion is recognised in the income statement immediately. In the year ended 30 September 2008, the Group has recognised an amount of $nil (2007 : $nil) for the ineffective amount of the hedge. At balance date these Group deposits were assets with a fair value of $591,000 (2007 : $nil).

***(iii) Forward exchange contracts - cash flow hedges***

The Group has a current receivable in US dollars, relating to royalty and licence income under current agreements. In order to protect against exchange rate movements, the Group has entered into designated forward exchange contracts denominated in US dollars.

These contracts are hedging the highly probable receipts of US dollars in December 2008 and January 2009. The contracts are timed to mature when the US dollars are due for receipt.

The hedging instruments are valued at mark to market. The gain or loss from remeasuring the hedge instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged income is received. In the year ended 30 September 2008, the Group has recognised an amount of $nil (2007 : $nil) for the ineffective amount of the hedge. In the prior year the Group has a current receivable in pounds sterling, relating to escrowed proceeds from the disposal of its investment in Domantis Limited.

# Notes to the financial statements

*13 Derivative financial instruments (continued)*

At balance date the details of outstanding contracts are:

| Sell US dollars | Buy Australian dollars | | Average exchange rate | |
|---|---|---|---|---|
| | 30 September 2008 USD '000 | 30 September 2007 USD'000 | 30 September 2008 | 30 September 2007 |
| Maturity 6-12 months | 7,515 | - | 0.9434 | - |

| Sell Pounds Sterling | Buy Australian dollars | | Average exchange rate | |
|---|---|---|---|---|
| | 30 September 2008 GBP '000 | 30 September 2007 GBP'000 | 30 September 2008 | 30 September 2007 |
| Maturity 6-12 months | - | 7,133 | - | 0.4015 |

Amounts disclosed above represent currency sold at contracted rate.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount in the deferred equity. At balance date these contracts were liabilities to the Group of $1,399,000 (2007 : assets of $48,000). No amounts were recognised in the income statement in the year ended 30 September 2008 (2007 : income of $377,000).

### (b) Risk exposures

Information about the Group's and the parent entity's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

## 14 CURRENT ASSETS - OTHER FINANCIAL ASSETS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Security deposit | 1,908 | - | 1,908 | - |
| | 1,908 | - | 1,908 | - |

### (a) Security deposit

The parent entity's principal bankers have provided bank guarantees in relation to the Group's non cancellable operating leases. For which the parent entity has deposited the above security deposit, denominated in Australian dollars, as a pledge for these bank guarantees. This financial asset is carried at cost.

### (b) Risk exposures

Information about the Group's and the parent entity's exposure to credit risk and interest rate risk is provided in note 2.

## 15 CURRENT ASSETS - OTHER FINANCIAL ASSETS - HELD FOR SALE

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Year ended 30 September 2008 | $'000 | $'000 | $'000 | $'000 |
| At beginning of year | - | - | - | 15,000 |
| Impairment charges | - | - | - | (15,000) |
| At end of year | - | - | - | - |
| **At 30 September 2008** | | | | |
| Shares in subsidiaries – at fair value (refer (a) below) | - | - | - | - |

### (a) Shares in subsidiaries

On 31 March 2007 Arana announced its intention to sell the Animal Health business, the financial asset being the shares held in Peptech Animal Health Pty Limited was impaired to a fair value of $nil in the prior year. The parent entity owned 100% of the issued capital of the subsidiary. The business was sold on 31 January 2008 and is reported in this financial report as a discontinued operation, refer note 10.

## 16 NON-CURRENT ASSETS - RECEIVABLES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Other receivables | 483 | - | 483 | - |
| | 483 | - | 483 | - |

### (a) Impaired receivables and receivables past due

None of the non-current receivables are impaired, or past due but not impaired.

### (b) Risk exposure

Information about the Group's and the parent entity's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

## 17 NON-CURRENT ASSETS - FINANCIAL ASSETS - INVESTMENTS IN UNLISTED SECURITIES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Year ended 30 September 2008 | $'000 | $'000 | $'000 | $'000 |
| At beginning of year | - | 40,156 | - | 40,156 |
| Additions – other corporations | - | - | - | - |
| Disposals – other corporations | - | (40,156) | - | (40,156) |
| At end of year | - | - | - | - |
| **At 30 September 2008** | | | | |
| Other corporations – at cost (refer (a) below) | - | - | - | - |
| | - | - | - | - |

### (a) Investments in other corporations

During the prior year the investment held in Domantis Limited was disposed of (refer note 6(a)), when Domantis Limited was acquired by GlaxoSmithKline. The final percentage ownership was 31.0% and the carrying value was $40,156,000. The investment was carried at cost.

## 18 NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Year ended 30 September 2008 | $'000 | $'000 | $'000 | $'000 |
| Shares in subsidiaries | - | - | 150,968 | 150,968 |
| | - | - | 150,968 | 119,968 |

### (a) Investments in subsidiaries

These financial assets are carried at cost. Refer to note 35 for information on investments in subsidiaries.

## 19 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

| Consolidated – 2007 | Leasehold Improvements | Production & laboratory equipment | Office equipment & furniture | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **At 1 October 2006** | | | | |
| Cost or fair value | 1,384 | 1,763 | 733 | 3,880 |
| Accumulated depreciation | (273) | (1,490) | (471) | (2,234) |
| Net book amount | 1,111 | 273 | 262 | 1,646 |
| **Year ended 30 September 2007** | | | | |
| Opening net book amount | 1,111 | 273 | 262 | 1,646 |
| Additions | 115 | 554 | 152 | 821 |
| Acquisitions through business combinations | - | 332 | 41 | 373 |
| Disposals | - | - | (2) | (2) |
| Depreciation charge | (148) | (151) | (127) | (426) |
| Impairment charge (refer (a) below) | (977) | (30) | (172) | (1,179) |
| Closing net book amount | 101 | 978 | 154 | 1,233 |
| **At 30 September 2007** | | | | |
| Cost or fair value | 1,434 | 2,238 | 780 | 4,452 |
| Accumulated depreciation and impairment | (1,333) | (1,260) | (626) | (3,219) |
| Net book amount | 101 | 978 | 154 | 1,233 |

| Consolidated – 2008 | Leasehold Improvements | Production & laboratory equipment | Office equipment & furniture | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **At 1 October 2007** | | | | |
| Cost or fair value | 1,434 | 2,238 | 780 | 4,452 |
| Accumulated depreciation | (1,333) | (1,260) | (626) | (3,219) |
| Net book amount | 101 | 978 | 154 | 1,233 |
| **Year ended 30 September 2008** | | | | |
| Opening net book amount | 101 | 978 | 154 | 1,233 |
| Additions | 6,197 | 2,978 | 2,198 | 11,373 |
| Disposals | - | - | (142) | (142) |
| Depreciation charge | (322) | (576) | (400) | (1,298) |
| Closing net book amount | 5,976 | 3,380 | 1,810 | 11,166 |
| **At 30 September 2008** | | | | |
| Cost or fair value | 6,299 | 4,981 | 2,236 | 13,516 |
| Accumulated depreciation and impairment | (323) | (1,601) | (426) | (2,350) |
| Net book amount | 5,976 | 3,380 | 1,810 | 11,166 |

### (a) Impairment of Property, plant and equipment

The prior year charge relates to property, plant and equipment held by the parent entity that was associated with the operations at 19-25 Khartoum Road, which was impaired to a value of $nil. The property, plant and equipment that was held by the Peptech Animal Health business was also impaired to a value of $nil, refer note 10.



| Parent entity – 2007 | Leasehold Improvements | Production and laboratory equipment | Office equipment & furniture | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **At 1 October 2006** | | | | |
| Cost or fair value | 1,375 | 1,450 | 730 | 3,555 |
| Accumulated depreciation | (275) | (1,177) | (467) | (1,919) |
| Net book amount | 1,100 | 273 | 263 | 1,636 |
| **Year ended 30 September 2007** | | | | |
| Opening net book amount | 1,100 | 273 | 263 | 1,636 |
| Additions | 117 | 327 | 144 | 588 |
| Disposals | - | - | (2) | (2) |
| Depreciation charge | (147) | (110) | (125) | (382) |
| Impairment charge (refer (a) below) | (977) | (30) | (172) | (1,179) |
| Closing net book amount | 93 | 460 | 108 | 661 |
| **At 30 September 2007** | | | | |
| Cost or fair value | 1,427 | 1,269 | 663 | 3,359 |
| Accumulated depreciation | (1,334) | (809) | (555) | (2,698) |
| Net book amount | 93 | 460 | 108 | 661 |

| Parent entity – 2008 | Leasehold Improvements | Production and laboratory equipment | Office equipment & furniture | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **At 1 October 2007** | | | | |
| Cost or fair value | 1,427 | 1,269 | 663 | 3,359 |
| Accumulated depreciation | (1,334) | (809) | (555) | (2,698) |
| Net book amount | 93 | 460 | 108 | 661 |
| **Year ended 30 September 2008** | | | | |
| Opening net book amount | 93 | 460 | 108 | 661 |
| Additions | 3,258 | 1,186 | 1,562 | 6,006 |
| Disposals | - | - | - | - |
| Depreciation charge | (214) | (265) | (360) | (839) |
| Closing net book amount | 3,137 | 1,381 | 1,310 | 5,828 |
| **At 30 September 2008** | | | | |
| Cost or fair value | 3,294 | 2,263 | 1,698 | 7,255 |
| Accumulated depreciation | (157) | (882) | (388) | (1,427) |
| Net book amount | 3,137 | 1,381 | 1,310 | 5,828 |

### (a) Impairment of Property, plant and equipment

The prior year charge relates to property, plant and equipment held by the parent entity that was associated with the operations at 19-25 Khartoum Road, which was impaired to a value of $nil.

## 20 NON-CURRENT ASSETS - DEFERRED TAX ASSETS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| **The balance comprises temporary differences attributable to:** | | | | |
| *Amounts recognised in profit or loss* | | | | |
| Accrued expenses | - | 654 | - | 567 |
| Doubtful debts | - | 191 | - | 191 |
| Employee benefits | - | 207 | - | 147 |
| Surplus lease space | - | 406 | - | 406 |
| Depreciation | - | 293 | - | 293 |
| Deferred consideration | - | 3,487 | - | 1,721 |
| Business related capital costs | - | 284 | - | 257 |
| Patent expenses | - | 80 | - | 80 |
| | - | 5,602 | - | 3,654 |
| Temporary differences relating to continuing operations | - | 5,602 | - | 3,654 |
| Set off of deferred tax assets pursuant to set-off provisions (note 26) | - | (2,701) | - | (1,502) |
| Net deferred tax asset | - | 2,901 | - | 2,152 |
| **Movements:** | | | | |
| Opening balance at 1 October | **5,602** | 1,862 | **3,654** | 771 |
| (Charged) credited to the income statement (note 9) | **(5,602)** | 3,740 | **(3,654)** | 2,883 |
| Closing balance at 30 September | - | 5,602 | - | 3,654 |

## 21 NON-CURRENT ASSETS - INTANGIBLE ASSETS

| Consolidated | Goodwill | Licence fee | Identifiable Intellectual Property | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **At 1 October 2006** | | | | |
| Cost | - | 3,500 | 5,146 | 8,646 |
| Accumulated amortisation and impairment | - | (566) | (180) | (746) |
| Net book amount | - | 2,934 | 4,966 | 7,900 |
| **Year ended 30 September 2007** | | | | |
| Opening net book amount | - | 2,934 | 4,966 | 7,900 |
| Acquisition through business combination | - | - | 127,275 | 127,275 |
| Amortisation charge (refer (a) below) | - | (103) | (2,303) | (2,406) |
| Impairment charge (refer (b) below) | - | (2,831) | - | (2,831) |
| Closing net book amount | - | - | 129,938 | 129,938 |
| **At 30 September 2007** | | | | |
| Cost | - | - | 132,421 | 132,421 |
| Accumulated amortisation and impairment | - | - | (2,483) | (2,483) |
| Net book amount | - | - | 129,938 | 129,938 |
| **Year ended 30 September 2008** | | | | |
| Opening net book amount | - | - | 129,938 | 129,938 |
| Acquisition through business combination - | | | | |
| Revision of estimate (refer (c) below) | 22,236 | - | (22,236) | - |
| Amortisation charge (refer (a) below) | - | - | (8,331) | (8,331) |
| Closing net book amount | 22,236 | - | 99,371 | 121,607 |
| **At 30 September 2008** | | | | |
| Cost | 22,236 | - | 110,185 | 132,421 |
| Accumulated amortisation and impairment | - | - | (10,814) | (10,814) |
| Net book amount | 22,236 | - | 99,371 | 121,607 |
| **Parent entity** | | | | |
| **At 1 October 2006** | | | | |
| Cost | - | 3,500 | - | 3,500 |
| Accumulated amortisation and impairment | - | (566) | - | (566) |
| Net book amount | - | 2,934 | - | 2,934 |
| **Year ended 30 September 2007** | | | | |
| Opening net book amount | - | 2,934 | - | 2,934 |
| Addition | - | - | 10,587 | 10,587 |
| Amortisation charge (refer (a) below) | - | (103) | (608) | (711) |
| Impairment charge (refer (b) below) | - | (2,831) | - | (2,831) |
| Closing net book amount | - | - | 9,979 | 9,979 |
| **At 30 September 2007** | | | | |
| Cost | - | - | 10,587 | 10,587 |
| Accumulated amortisation and impairment | - | - | (608) | (608) |
| Net book amount | - | - | 9,979 | 9,979 |
| **Year ended 30 September 2008** | | | | |
| Opening net book amount | - | - | 9,979 | 9,979 |
| Amortisation charge (refer (a) below) | - | - | (730) | (730) |
| Closing net book amount | - | - | 9,249 | 9,249 |
| **At 30 September 2008** | | | | |
| Cost | - | - | 10,587 | 10,587 |
| Accumulated amortisation and impairment | - | - | (1,338) | (1,338) |
| Net book amount | - | - | 9,249 | 9,249 |

*21. Non-current assets - Intangible assets (continued)*

### (a) Amortisation
Amortisation of $8,331,000 (2007 : $2,406,000) is included in depreciation and amortisation expense in the income statement.

### (b) Impairment of Licence Fee
The prior year impairment charge arose in the Human Health business segment following a strategic review of the Group's participation in the joint venture with Biosceptre International Limited and the accounting treatment of recognising an impairment on the carrying value of the intellectual property. The intellectual property has now been disposed.

### (c) Goodwill acquisition through business combination
In the prior year, the parent entity acquired 100% of the issued share capital of EvoGenix Limited (EvoGenix). The business combination reported in the 30 September 2007 Financial Report was completed at that time using initial fair values that had been provisionally determined with reference to accounting policy note 1(i) and AASB 3 Business Combinations. During the current year, Arana has completed an independent valuation of the assets acquired. The Group has adopted the valuation findings and determined that the assets acquired on acquisition also comprised goodwill. Information about the Group's revision of estimate is provided in note 7.

### (d) Impairment testing of goodwill and intellectual property - EvoGenix
Goodwill acquired through a business combination of $22,236,000 and intangible assets of $81,767,000 relate to an individual cash generating unit, being EvoGenix.

The recoverable amounts of EvoGenix, including platform technology and compounds have been determined based on a value in use calculation under which the present worth of the future cash flows expected over the economic life of the asset. The future cash flow projections are based on financial budgets and business plans as well as an assessment of information from external sources on such factors as the existing incidence of the disease, projections of patients that would be eligible for the proposed treatment, product market size, competitor products and the expected growth figures.

### (e) Impairment testing of goodwill and intellectual property - EvoGenix (continued)
Independent valuers were engaged to carry out this valuation and chose to use a discounted cash flow method. The valuation has been based on a cash flow projection covering the remaining term for each relevant patent application or licence, which can exceed 12 years yet, does not exceed 19 years. No residual values have been included.

Funds are being invested in research and development, as products move through each phase of required clinical development. Product development can take several years. The cash flow model has incorporated projected cash flows from between 12 to 19 years based on the patent or licence life in lieu of using a terminal value to better reflect the nature of the cash flows to be received over the product life cycle. The application of extended cash flow projections beyond five years is consistent with AASB 136 ***Impairment of Assets 134(d)(iii).***

The calculation of value in use for EvoGenix is most sensitive to the following assumptions:

- Estimated market size for product
- Annual growth in market size
- Market share and time to achieve market share
- Royalty rate achieved
- Probability that the product will be successful

### (f) Impairment testing of intellectual property - Promics and Scancell
The intellectual property acquired through the business acquisitions of Promics ($8,355,000) and Scancell ($9,249,000) relate to individual cash generating units, being Promics and Scancell.

The recoverable amount of these cash generating units have been determined by Arana's management based on a value in use calculation under which the present worth of the future cash flows expected over the economic life of the asset. The future cash flow projections are based on financial budgets and business plans as well as an assessment of information from external sources on such factors as the existing incidence of the disease, projections of patients that would be eligible for the proposed treatment, product market size, competitor products and the expected growth figures.

The valuation has been based on a cash flow projection covering the remaining term for the most relevant patent application or licence, which can exceed 11 years yet, does not exceed 15 years. No residual values have been included.

Arana is currently investing significant funds in research and development, as products move through each phase of required clinical development. Product development can take several years. The cash flow model has incorporated projected cash flows from between 11 to 15 years based on the patent life in lieu of using a terminal value to better reflect the nature of the cash flows to be received over the product life cycle. The application of extended cash flow projections beyond five years is consistent with AASB 136 ***Impairment of Assets 134(d)(iii).***

The calculation of value in use for Scancell and Promics is most sensitive to the following assumptions:

- Estimated market size for product
- Annual growth in market size
- Market share and time to achieve market share
- Royalty rate achieved
- Probability that the product will be successful



## 22 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade payables | **199** | 227 | **96** | 106 |
| Related parties payables (refer (a) below) | **-** | - | **25,752** | 1,155 |
| Other payables (refer (b) below) | **5,357** | 3,885 | **3,582** | 2,835 |
| | **5,556** | 4,112 | **29,430** | 4,096 |

### (a) Related parties payable
Amounts payable in the parent entity include tax related payables of $4,500,000 (2007 : $1,769,000) due to controlled entities under a tax funding agreement (note 1(g) and note 9).

### (b) 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.

### (c) Risk exposures
Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in note 2.

## 23 CURRENT LIABILITIES - PROVISIONS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Employee benefits - long service leave | **53** | 62 | **53** | 62 |
| Surplus lease space | **-** | 368 | **-** | 368 |
| | **53** | 430 | **53** | 430 |

### (a) Employee benefits – long service leave
The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement.

### (b) Surplus lease space
The provision for surplus lease space represents the present value of future payments for surplus leased space under non-cancellable operating leases which are not onerous contracts. This has been recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased space will be of no future benefit to the Group. The net future lease payments have been discounted using the interest rates implicit in the leases.

### (c) Movements in provision
Movements in the provision for surplus lease space for the Group and parent entity during the financial year are set out below:

| Consolidated and parent entity | Surplus Lease Space Provision | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| Carrying amount at start of year | **368** | 80 |
| Charged / (credited) to the income statement | **(368)** | 288 |
| Carrying amount at end of year | **-** | 368 |

## 24 CURRENT LIABILITIES - OTHER LIABILITIES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Deferred revenue - refer note 1(e)(iv) | **1,565** | - | **1,565** | - |
| | **1,565** | - | **1,565** | - |

## 25 NON-CURRENT LIABILITIES – OTHER LIABILITIES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Deferred revenue - refer note 1(e)(iv) | **1,957** | - | **1.957** | - |
| Other payables | **14,343** | 11,841 | **6,516** | 5,926 |
| | **16,300** | 11,841 | **8,473** | 5,926 |

### Other Payables
Other payables represent the deferred consideration payable on the acquisition of Promics Limited and the cancer therapeutic antibody business assets of Scancell Limited. These liabilities have been discounted to their present value and recognised in accordance with Group accounting policy (refer note 1 (i) and note 3).

## 26 NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| The balance comprises temporary differences attributable to: | | | | |
| ***Amounts recognised in profit or loss*** | | | | |
| Intellectual Property | **-** | 2,701 | **-** | 1,502 |
| Research and development | **-** | 143 | **-** | - |
| Interest income | **-** | 335 | **-** | 335 |
| Grant income | **-** | 78 | **-** | - |
| Licence fee | **-** | 520 | **-** | 520 |
| Depreciation | **-** | 66 | **-** | - |
| | **-** | 3,843 | **-** | 2,357 |
| Less: amounts relating to discontinuing operations | **-** | (200) | **-** | - |
| Temporary differences relating to continuing operations | **-** | 3,643 | **-** | 2,357 |
| Set off of deferred tax liabilities pursuant to set off provisions (note 20) | **-** | (2,701) | **-** | (1,502) |
| Net deferred tax liability | **-** | 942 | **-** | 855 |
| **Movements:** | | | | |
| Opening balance at 1 October | **3,843** | 259 | **2,357** | 187 |
| (Credited) charged to the income statement (note 9) | **(3,643)** | 3,584 | **(2,357)** | 2,170 |
| Relating to discontinued operations | **(200)** | - | **-** | - |
| Closing balance at 30 September | **-** | 3,843 | **-** | 2,357 |

## 27 NON-CURRENT LIABILITIES - PROVISIONS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Employee benefits - long service leave | **200** | 230 | **147** | 192 |
| Make good provision | **367** | 81 | **247** | 81 |
| Surplus lease space | **-** | 986 | **-** | 986 |
| | **567** | 1,297 | **394** | 1,259 |

### (a) Make good provision

The Group is required to restore its leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.



### (b) Movements in provision

Movements in the provision for surplus lease space for the Group and parent entity during the financial year are set out below:

| | Surplus Lease Space Provision | Make Good Provision | Total |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| Carrying amount at 1 October | 986 | 81 | 1,067 |
| Additional provision recognised - charged to plant and equipment | - | 367 | 367 |
| Charged / (credited) to the income statement | (986) | (81) | (1,067) |
| Carrying amount at 30 September | - | 367 | 367 |

## 28 CONTRIBUTED EQUITY

| | | Consolidated and Parent entity | | Consolidated and Parent entity | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | Notes | **Shares** | Shares | **$'000** | $'000 |
| **(a) Share capital** | | | | | |
| Ordinary shares | | | | | |
| Fully paid | (b),(c) | **234,986,037** | 234,986,037 | **215,478** | 215,478 |

### (b) Movements in ordinary share capital

| Date | Details | Notes | Number of shares | Issue price | $'000 |
|---|---|---|---|---|---|
| 1 October 2006 | Opening balance | | 164,077,160 | | 125,779 |
| 28 August 2007 | Shares issued in respect of EvoGenix Limited acquisition | (f) | 70,908,877 | $1.27 | 89,699 |
| 30 September 2007 | Closing balance | | 234,986,037 | | 215,478 |
| 30 September 2008 | Closing balance | | 234,986,037 | | 215,478 |

### (c) 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.

### (d) Arana performance share plan

Information relating to the Arana performance share plan, including details of share rights issued under the plan, is set out in note 41. No shares were issued under this plan for the year ended 30 September 2008.

### (e) Options

Information relating to the Arana Therapeutics Limited – 1999 Arana Option Plan and the Directors' Options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 41.

### (f) EvoGenix acquisition

Information relating to shares issued in respect of the EvoGenix Limited acquisition is set out in note 7.

## 29 RESERVES AND RETAINED PROFITS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| **(a) Reserves** | | | | |
| Hedging reserve | (911) | 48 | (911) | 48 |
| Share-based payments reserve | 611 | 685 | 611 | 685 |
| Foreign currency translation reserve | (56) | (8) | - | - |
| | (356) | 725 | (300) | 733 |
| **Movements:** | | | | |
| *Hedging reserve* | | | | |
| Balance 1 October | 48 | - | 48 | - |
| Transfer to net profit – gross | (48) | - | (48) | - |
| Revaluation – gross (refer note 13 (a)) | (911) | 48 | (911) | 48 |
| Balance 30 September | (911) | 48 | (911) | 48 |
| *Share-based payments reserve* | | | | |
| Balance 1 October | 685 | 537 | 685 | 537 |
| Performance share expense | 66 | 384 | 66 | 343 |
| Performance shares acquired | (199) | (337) | (199) | (337) |
| Tax benefit on performance shares acquired | 59 | 101 | 59 | 101 |
| Performance share expense recharged to subsidiaries | - | - | - | 41 |
| Balance 30 September | 611 | 685 | 611 | 685 |
| *Foreign currency translation reserve* | | | | |
| Balance 1 October | (8) | - | - | - |
| Currency translation differences arising during the year | (48) | (8) | - | - |
| Balance 30 September | (56) | (8) | - | - |

### (b) Retained profits

Movements in retained profits were as follows:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance 1 October | 93,043 | (40,371) | 95,848 | (30,998) |
| Net profit for the year | (4,092) | 133,414 | 9,408 | 126,846 |
| Balance 30 September | 88,951 | 93,043 | 105,256 | 95,848 |

### (c) Nature and purpose of reserves

*(i) Hedging reserve - cash flow hedges*

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(p). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

*(ii) Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of share rights issued but not vested.

*(iii) Foreign currency translation reserve*

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.



## 30 KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Key management personnel compensation

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Short-term employee benefits | 3,953,077 | 2,592,498 | 3,377,372 | 2,350,733 |
| Post-employment benefits | 272,479 | 261,562 | 221,720 | 234,914 |
| Share-based payments | 164,867 | 207,586 | 164,616 | 177,095 |
| | 4,390,423 | 3,061,646 | 3,763,708 | 2,762,742 |

Detailed remuneration disclosures are provided in sections B to D of the remuneration report on pages 33 to 37.

### (b) Equity instrument disclosures relating to key management personnel

*(i) Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 15 and 16 and note 41.

*(ii) Option holdings*

No options over ordinary shares in the company were held during the financial year by a director of Arana Therapeutics Limited and other key management personnel of the Group, including their personally related parties.

The numbers of options over ordinary shares in the company held during the prior financial year by each director of Arana Therapeutics Limited and other key management personnel of the Group, including their personally related parties, are set out over.

Directors and Key Management Personnel (KMP) of Arana Therapeutics Limited and the Group

| 2007 Name | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Lapsed during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| T Medinger | 125,000 | - | - | (125,000) | - | - |
| KMP | | | | | | |
| N Henderson | 300,000 | - | - | (300,000) | - | - |
| P Schober | 40,000 | - | - | (40,000) | - | - |

*(iii) Performance shares provided as remuneration and shares issued on exercise of such options*

Details of performance shares granted as remuneration and vested at the end of their performance period, together with terms and conditions of the performance shares, can be found in section D of the remuneration report on page 37.

*(iv) Performance share holdings*

The numbers of performance shares in the Company held during the financial year by each director of Arana Therapeutics Limited and other key management personnel of the Group are set out below.

# Notes to the financial statements

*30. Key management personnel disclosures (continued)*

Directors and Key Management Personnel (KMP) of Arana Therapeutics Limited and the Group

| 2008 Performance shares | Number at beginning of year | Number granted | Number vested | Number forfeited | Number at end of year | Value of shares granted | |
|---|---|---|---|---|---|---|---|
| | | | | | | Minimum | Maximum |
| **Directors** | | | | | | | |
| J Chiplin | 134,016 | 213,675 | - | - | 347,691 | - | $20,299 |
| **KMP** | | | | | | | |
| R Crombie | - | 121,154 | - | - | 121,154 | - | $11,510 |
| D Fuller | - | 179,487 | - | - | 179,487 | - | $17,051 |
| N Henderson | 117,376 | 143,590 | (23,693) | (6,468) | 230,805 | - | $13,641 |
| C Holloway | 39,887 | 121,154 | - | - | 161,041 | - | $11,510 |
| P Jennings | 148,894 | 179,487 | (31,694) | (8,653) | 288,034 | - | $17,051 |
| S Nock | - | 122,863 | - | - | 122,863 | - | $11,672 |

Performance shares issued during the financial year were granted on 22 September 2008 and their performance measurement period ends on 31 December 2010.

For the performance shares at the beginning of the financial year, the shares were issued in three separate rounds:

(a) shares issued on 1 January 2005 with their performance measurement period ending on 31 December 2007; and

(b) shares issued on 1 January 2006 with their performance measurement period on 31 December 2008; and

(c) shares issued on 1 January 2007 with their performance measurement period on 31 December 2009

The maximum value of the shares granted during the financial year has been determined by multiplying the number of shares granted during the financial year by the fair value of those shares at date of grant as determined by Mercer Human Resource Consulting Pty Ltd being $0.095.

Directors and Key Management Personnel (KMP) of Arana Therapeutics Limited and the Group

| 2007 Performance shares | Number at beginning of year | Number granted | Number vested | Number forfeited | Number at end of year | Value of shares granted | |
|---|---|---|---|---|---|---|---|
| | | | | | | Minimum | Maximum |
| **Directors** | | | | | | | |
| J Chiplin | 60,150 | 73,866* | - | - | 134,016 | - | $101,196 |
| P Jennings | 129,401 | 55,116* | 35,623 | - | 148,894 | - | $75,509 |
| **KMP** | | | | | | | |
| N Henderson | 98,879 | 47,274 | 28,777 | - | 117,376 | - | $64,765 |
| C Holloway | - | 39,887 | - | - | 39,887 | - | $54,645 |
| S Nock | 57,962 | 29,020 | 16,091 | - | N/A | - | $39,757 |

* The Board chose not to issue the performance share entitlements to executive directors J Chiplin and P Jennings as at 1 January 2007. However under their respective employment contracts, they are entitled to a cash payment, payable under the same terms and conditions. The contingent cash payment will represent the value of the shares they would have received, had they participated in the performance share plan. The allocations at 1 January 2007 were:

J Chiplin 73,866 shares equivalent

P Jennings 55,116 shares equivalent.

No shares were issued to S Nock or R Crombie as the terms of the LTI plan are that the employee must be in employment at the beginning of the calendar year, when the allocations are made.



N/A represents that the key management personnel did not hold office at that point in time.

Performance shares issued during the financial year were granted on 1 January 2007 and their performance measurement period ends on 31 December 2009.

For the performance shares at the beginning of the financial year, the shares were issued in three separate rounds:

(a) shares issued on 1 March 2004 with their performance measurement period ending on 28 February 2007;

(b) shares issued on 1 January 2005 with their performance measurement period ending on 31 December 2007; and

(c) shares issued on 1 January 2006 with their performance measurement period on 31 December 2008.

The maximum value of the shares granted during the financial year has been determined by multiplying the number of shares granted during the financial year by the fair value of those shares at date of grant as determined by Mercer Human Resource Consulting Pty Ltd being $1.370.

### (iv) Share holdings

The numbers of shares in the Company held during the financial year and up to the date of this report, by each director of Arana Therapeutics Limited and other key management personnel of the Group, including their personally related parties, are set out below.

Directors and Key Management Personnel (KMP) of Arana Therapeutics Limited and the Group - 2008

| 2008 Name | Balance at the start of the year | Received during the year as performance shares | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| **Directors** | | | | |
| B Bartlett | 55,000 | - | - | N/A |
| R Beaumont | 125,648 | - | 28,352 | 154,000 |
| M Bridges | 323,900 | - | - | N/A |
| G Bundy | 250,000 | - | 50,000 | N/A |
| L Chee | - | - | - | - |
| J Chiplin | 165,000 | - | - | 165,000 |
| C Harris | 401,784 | - | 23,221 | 425,005 |
| G Jessup * | 399,404 | - | - | 399,404 |
| **KMP** | | | | |
| R Crombie | 395,205 | - | 395,205 | 395,205 |
| D Fuller | N/A | N/A | 11,000 | 11,000 |
| N Henderson | 58,777 | 23,693 | 30,000 | 112,470 |
| C Holloway | 25,000 | - | 15,000 | 40,000 |
| P Jennings | 41,758 | 31,694 | N/A | 73,452 |
| S Nock | 29,087 | - | 95,000 | 124,087 |

N/A represents that the director or KMP did not have office at that point in time.

* In addition to the above shares G Jessup has interests in:

a. 22,433,969 ordinary shares in Arana Therapeutics Limited held by Start-up Australia Ventures Pty Ltd.

b. 170,591 ordinary shares in Arana Therapeutics Limited held by BioVentures Australia Pty Ltd

*30. Key management personnel disclosures (continued)*

Directors and Key Management Personnel (KMP) of Arana Therapeutics Limited and the Group

| 2007 Name | Balance at the start of the year | Received during the year as performance shares | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| **Directors** | | | | |
| B Bartlett | 35,000 | - | 20,000 | 55,000 |
| R Beaumont | N/A | - | 125,648 | 125,648 |
| M Bridges | 236,700 | - | 87,200 | 323,900 |
| G Bundy | 150,000 | - | 100,000 | 250,000 |
| L Chee | N/A | - | - | - |
| J Chiplin | 100,000 | - | 65,000 | 165,000 |
| C Harris | N/A | - | 401,784 | 401,784 |
| P Jennings | 6,135 | 35,623 | - | 41,758 |
| M Kriewaldt | 100,000 | - | - | N/A |
| T Medinger | 330,000 | - | 30,000 | N/A |
| **KMP** | | | | |
| R Crombie | N/A | - | 395,205 | 395,205 |
| N Henderson | 10,000 | 28,777 | 20,000 | 58,777 |
| C Holloway | 7,000 | - | 18,000 | 25,000 |
| S Nock | N/A | - | 29,087 | 29,087 |
| P Schober | 220 | 16,091 | - | N/A |

N/A represents that the director or KMP did not have office at that point in time.

## 31 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:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| **(a) Assurance services** | | | | |
| **Audit services** | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | **241,265** | 270,051 | **241,265** | 270,051 |
| Non- PricewaterhouseCoopers | | | | |
| Audit and review of financial reports | **4,899** | - | **-** | - |
| Total remuneration for audit services | **246,164** | 270,051 | **241,265** | 270,051 |
| **Other assurance services** | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Audit of regulatory returns | **18,800** | 18,500 | **18,800** | 18,500 |
| Due diligence services | **-** | 265,033 | **-** | 265,033 |
| Total remuneration for other assurance services | **18,800** | 283,533 | **18,800** | 283,533 |
| Total remuneration for assurance services | **264,964** | 553,584 | **160,065** | 553,584 |



| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| **(b) Taxation services** | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Tax compliance services, including review of company income tax returns | **57,500** | 60,433 | **57,500** | 102,433 |
| Other consulting and advice on taxation matters | **77,500** | 28,300 | **77,500** | 28,300 |
| Total remuneration for taxation services | **135,000** | 88,733 | **135,000** | 130,733 |

## 32 CONTINGENCIES

### (a) Rental Guarantees

Guarantees given to third parties regarding the leasehold properties of Group subsidiaries and parent entity $1,272,000 (2007 : $180,000).

Guarantees given to third parties regarding the leasehold property of the animal health business (related party, at the time of the sale transaction) $892,000 (2007 : $nil).

## 33 COMMITMENTS

### (a) Capital Commitments

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

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Property, Plant and equipment** | | | | |
| Payable: | | | | |
| Within one year | **800** | 4,455 | **-** | 4,455 |
| | **800** | 4,455 | **-** | 4,455 |

### (b) Lease commitments: Group company as lessee

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable: | | | | |
| Within one year | **1,591** | 1,071 | **455** | 1,061 |
| Later than one year but not later than five years | **7,488** | 3,638 | **2,751** | 3,638 |
| Later than five years | **1,560** | - | **-** | - |
| | **10,639** | 4,709 | **3,206** | 4,699 |
| Representing: | | | | |
| Non-cancellable operating leases | **10,639** | 4,709 | **3,206** | 4,699 |
| | **10,639** | 4,709 | **3,206** | 4,699 |

### Operating leases

The Group leases various premises under non-cancellable operating leases expiring within 5 to 7 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The above lease commitments do not include lease payments payable under leases where the Group has at its discretion an option to extend the period of the lease.

## 34 RELATED PARTY TRANSACTIONS

### (a) Parent entities

The parent entity within the Group is Arana Therapeutics Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 35.

### (c) Key management personnel

Disclosures relating to key management personnel and former key management personnel are set out in the Remuneration Report included within the Directors' report and note 30.

### (d) Transactions with related parties

The following transactions occurred with related parties (not elsewhere disclosed in the financial statements):

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| *Sales of goods and services* | | | | |
| R&D contract income | | | | |
| Subsidiaries | **-** | - | **-** | 1,242,751 |
| Royalty income for technology licence | | | | |
| Subsidiaries | **-** | - | **5,779** | 14,342 |
| *Purchases of goods and services* | | | | |
| Joint venture operating expenses | | | | |
| Other related parties | **-** | 2,207 | **-** | 2,207 |
| R&D contract expense | | | | |
| Subsidiaries | **-** | - | **569,870** | 632,182 |
| *Tax consolidation legislation* | | | | |
| Tax losses assumed from wholly-owned tax consolidated entities | **-** | - | **4,810,603** | 1,769,788 |
| *Other transactions* | | | | |
| Sale of animal health business | | | | |
| Former director (M Bridges) | | | | |
| Refer note 10 | **587,000** | - | **587,000** | - |
| Transfer of intellectual property to the parent entity | | | | |
| Subsidiaries | **-** | - | **-** | 10,587,543 |
| Subscriptions for new ordinary shares by the parent entity | | | | |
| Subsidiaries | **-** | - | **31,000,000** | - |



### (e) Outstanding balances

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

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| Current receivables (R&D contract income) | | | | |
| Subsidiaries | **-** | - | **-** | 1,242,752 |
| Current receivables (royalty income) | | | | |
| Subsidiaries | **-** | - | **-** | 1,139 |
| Current receivables (other expenditure) | | | | |
| Subsidiaries | **-** | - | **9,747,240** | 3,188 |
| Current receivables (other receivables) | | | | |
| Former director (M Bridges) | | | | |
| Refer note 12 | **-** | - | **75,500** | - |
| Non-current receivables (other receivables) | | | | |
| Former key management personnel (M Bridges) | | | | |
| Refer note 16 | **-** | - | **482,550** | - |
| Current payables (R&D contract expense) | | | | |
| Subsidiaries | **-** | - | **-** | 632,182 |
| Current payables (tax funding agreement) | | | | |
| Wholly-owned tax consolidated entities | **-** | - | **4,499,543** | 1,769,788 |
| Non-current payables (contingent deferred consideration Promics) | | | | |
| Director (G Jessup) | | | | |
| Due to Promics shareholders, Start-up Australia Ventures Pty Ltd and Bioventures Australia Pty Ltd, entities that G Jessup has interests in. | **-** | - | **3,048,066** | 3,048,066 |

No provisions for impairment have been raised in relation to any outstanding balances, and no impairment expense has been recognised in respect balances due from related parties, in the current period (2007 : $ nil).

### (f) Terms and conditions

All contract R&D transactions are made on normal commercial terms and conditions.

The terms and conditions of the tax funding agreement are sent out in note 9(d).

The transfer of intellectual property was completed at cost.

Expenditure on shared employees and contract income are recorded at cost.

Joint venture operating expenses are re-charged at cost.

The acquisition by the parent entity of Promics Limited was completed on normal terms and conditions. A director (G Jessup) was also a director and held interests in shareholders of Promics Limited up until the date of acquisition.

The sale of the animal health business to a third party related with a former director (M Bridges) was completed following an exhaustive sale process, on arm's length commercial terms.

All other transactions were made on normal commercial terms and conditions.

Outstanding current balances are unsecured and are repayable in cash.

## 35 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 | Note | Country of incorporation | Class of shares | Equity holding * | |
|---|---|---|---|---|---|
| | | | | 2008 | 2007 |
| | | | | % | % |
| Arana Therapeutics (VIC) Pty Ltd | 2 | Australia | Ordinary | **100** | 100 |
| Arana Therapeutics Inc | 2 | U.S. | Ordinary | **100** | 100 |
| Peptech Animal Health Pty Ltd | 1 | Australia | Ordinary | **-** | 100 |
| Peptech Investments Pty Ltd | 2 | Australia | Ordinary | **100** | 100 |
| Peptech Investments (1991) Pty Ltd | 2 | Australia | Ordinary | **100** | 100 |
| Peptech Investments (1992) Pty Ltd | 2 | Australia | Ordinary | **100** | 100 |
| Peptech Investments (1994) Pty Ltd | 2 | Australia | Ordinary | **100** | 100 |
| Peptech Marketing Pty Ltd | 2 | Australia | Ordinary | **100** | 100 |
| Arana Therapeutics UK Limited | 3 | England | Ordinary | **100** | 100 |
| Promics Pty Limited | 2 | Australia | Ordinary | **100** | 100 |

Notes
1 Controlled entity disposed during the year, refer note 10.
2 Controlled entity not audited as it is a small non-trading proprietary company not required to prepare audited financial statements
3 Controlled entity audited by Brett Adams Chartered Accountants.
* All companies are wholly owned by the parent entity. The proportion of ownership interest is equal to the proportion of voting power held.

## 36 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 September 2008 that has significantly affected, or may significantly affect:

(a) the Group's operations in future years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

## 37 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Profit for the year | **(4,092)** | 133,414 | **9,408** | 126,846 |
| Depreciation and amortisation | **9,629** | 2,955 | **1,569** | 1,093 |
| Non-cash employee benefits expense - share-based payments | **66** | 384 | **66** | 343 |
| Purchase of performance plan shares from reserve | **(199)** | (336) | **(199)** | (336) |
| Net (gain) loss on sale of non-current assets | **(501)** | (136,077) | **(587)** | (136,077) |
| Impairment charges | **(99)** | 7,322 | **-** | 19,010 |
| Non-cash finance costs | **686** | 818 | **343** | 339 |
| Net exchange differences | **(367)** | (284) | **(371)** | (287) |
| Change in operating assets and liabilities, net of effects from purchase of controlled entity | | | | |
| Net operating assets of subsidiary disposed of | **985** | - | **-** | - |
| Decrease (Increase) in trade and other receivables | **(4,123)** | (5,357) | **1,402** | (2,004) |
| (Increase) in inventories | **-** | (829) | **-** | - |
| Decrease (increase) in deferred tax asset | **5,602** | (3,740) | **3,654** | (2,883) |
| (Decrease) increase in trade creditors | **(760)** | 538 | **369** | (664) |
| Increase in other operating liabilities | **469** | 1,697 | **595** | 1,243 |
| Increase in deferred income | **3,521** | - | **3,521** | - |
| Increase (decrease) in provision for income taxes payable | **563** | (1,302) | **570** | (1,312) |
| (Decrease) increase in provision for deferred income tax | **(3,843)** | 3,584 | **(2,357)** | 2,170 |
| (Decrease) increase in other provisions | **(1,376)** | 340 | **(1,311)** | 106 |
| Net cash inflow from operating activities | **6,161** | 3,127 | **16,672** | 7,587 |

## 38 NON-CASH INVESTING AND FINANCING ACTIVITIES

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Acquisition of EvoGenix Limited via the issue of ordinary shares in Arana Therapeutics Limited refer note 7 | **-** | 89,699 | **-** | 89,699 |
| Investment in subsidiaries via share subscription | **-** | - | **31,000** | - |

# Notes to the financial statements

## 39 FINANCING ARRANGEMENTS

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| (i) Total facilities<br>Revolving chattel lease | **-** | 2,000 | **-** | 2,000 |
| (ii) Used at balance date<br>Revolving chattel lease | **-** | - | **-** | - |
| (iii) Unused at balance date<br>Revolving chattel lease | **-** | 2,000 | **-** | 2,000 |

## 40 EARNINGS PER SHARE

| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |
| | **Cents** | Cents |
| **(a) Basic earnings per share** | | |
| Profit (Loss) from continuing operations attributable to the ordinary equity holders of the Company | **(1.95)** | 81.65 |
| Profit (Loss) from discontinued operations | **0.21** | (3.48) |
| Profit (Loss) attributable to the ordinary equity holders of the Company | **(1.74)** | 78.17 |
| **(b) Diluted earnings per share** | | |
| Profit (Loss) from continuing operations attributable to the ordinary equity holders of the Company | **(1.95)** | 81.28 |
| Profit (Loss) from discontinued operations | **0.21** | (3.48) |
| Profit (Loss) attributable to the ordinary equity holders of the Company | **(1.74)** | 77.80 |

| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |
| | **$'000** | $'000 |
| **(c) Reconciliations of earnings used in calculating earnings per share** | | |
| **Basic earnings per share** | | |
| Profit (Loss) from continuing operations | **(4,580)** | 139,374 |
| Loss (Loss) from discontinuing operations | **488** | (5,960) |
| Profit (Loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share | **(4,092)** | 133,414 |
| **Diluted earnings per share** | | |
| Profit (Loss) from continuing operations | **(4,580)** | 139,374 |
| Profit (Loss) from discontinuing operations | **488** | (5,960) |
| Profit (Loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share | **(4,092)** | 133,414 |



| | Consolidated | |
|---|---|---|
| | **2008** | 2007 |
| | **Number** | Number |
| **(d) Weighted average number of shares used as the denominator** | | |
| **Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share** | **234,986,037** | 170,682,370 |
| Adjustments for calculation of diluted earnings per share:<br>Options and performance share plans | **615,568** | 795,425 |
| **Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share** | **235,601,605** | 171,477,795 |

### (e) Information concerning the classification of securities

*(i) Options*

Options granted to employees and directors under the Arana Therapeutics Limited – 1999 Arana Option Plan and the Arana Therapeutics Limited – Directors' Options, are considered to be potential ordinary shares and have been considered for inclusion in the determination of diluted earnings per share to the extent to which they are dilutive. However, given that all options have expired, no options have been included in the determination for the year ended 30 September 2008 (2007 : nil). The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 41.

*(ii) Performance Shares*

Performance shares granted to employees under the Performance Share Plans are considered to be potential ordinary shares and have been considered for inclusion in the determination of diluted earnings per share to the extent to which they are dilutive. However, given the benchmark share price of the performance shares and the respective measurement dates, only part of the total performance shares issued on 1 January 2005, 1 January 2006, 1 January 2007 and 22 September 2008 have been included in the determination for the year ended 30 September 2008 (2007 : part of 2004, 2005 and 2006 allocations included). The performance shares have not been included in the determination of basic earnings per share. Details relating to the performance shares are set out in note 41.

## 41 SHARE-BASED PAYMENTS

### (a) 1999 Arana Option Plan

The plan is no longer used.

No options were issued or lapsed during the year, nor were any options exercised.

The remaining 653,000 options lapsed during the prior year.

The number of unissued ordinary shares under these options at 30 September 2008 is nil (2007 : nil).

### (b) Directors' Option Plan

The plan is no longer used.

No options were issued or lapsed during the year, nor were any options exercised.

The remaining 425,000 options lapsed during the prior year.

The number of unissued ordinary shares under these options at 30 September 2008 is nil (2007 : nil).

# Notes to the financial statements

*41. Share-based payments (continued)*

## (c) Performance Share Plan

*Current 2008 Performance Share Plan*

On 13 August 2008, shareholders approved the Arana Therapeutics Limited Performance Share Plan. The main features of the plan are explained in the Remuneration Report. During the 2008 year 1,761,037 share rights were issued and of those nil lapsed. The share rights will vest on 31 December 2010, assuming certain performance conditions are met.

The fair value of performance share rights granted under the Arana Performance Share Plan is 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 shares.

*Closed Performance Share Plan*

This Plan is now closed. During the 2008 year no share rights were issued and 319,067 shares lapsed (2007 : 459,163 shares were granted and 21,178 shares lapsed). The share rights already issued will vest on 31 December 2008 and 31 December 2009, assuming certain performance conditions are met.

The fair value of performance share rights granted under the Arana Performance Share Plan is 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 shares.

| | Parent entity | | | |
|---|---|---|---|---|
| | Exercisable share rights with measurable date of 31 Dec 2007 | Exercisable share rights with measurable date of 31 Dec 2008 | Exercisable share rights with measurable date of 31 Dec 2009 | Exercisable share rights with measurable date of 31 Dec 2010 |
| Issue of performance share rights during the year | | | | |
| Opening balance 1 October 2006 | 224,164 | 413,491 | - | - |
| Share rights issued under Performance Share Plan | - | - | 459,163 | - |
| Share rights lapsed | (5,708) | (15,985) | (21,178) | - |
| Closing balance 30 September 2007 | 218,456 | 397,506 | 437,985 | - |
| | | | | |
| Opening balance 1 October 2007 | 218,456 | 397,506 | 437,985 | - |
| Share rights issued under Performance Share Plan | - | - | - | 1,761,037 |
| Share rights vested | (171,606) | - | - | - |
| Share rights lapsed | (46,850) | (112,599) | (159,618) | - |
| Closing balance 30 September 2008 | - | 284,907 | 278,367 | 1,761,037 |
| Arana share price upon which future performance will be measured | $1.71 | $1.33 | $1.37 | N/A |

## 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:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Shares rights issued under employee share scheme | **185** | 384 | **185** | 343 |
| Share rights lapsed under employee share scheme | **(119)** | - | **(119)** | - |
| | **66** | 384 | **66** | 343 |



# Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 48 to 98 are in accordance with the ***Corporations Act 2001***, including:

(i) complying with Accounting Standards, the ***Corporations Regulations 2001*** and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 September 2008 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures contained in sections A to D on pages 31 to 37 of the directors' report comply with Accounting Standards AASB 124 ***Related Party Disclosures and the Corporations Regulations 2001***; and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the ***Corporations Act 2001***.

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

**R. Beaumont**
Chairman

Sydney
12 November 2008

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

# Independent audit report to the members of Arana Therapeutics Limited

## Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Arana Therapeutics Limited (the company), which comprises the balance sheet as at 30 September 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Arana Therapeutics Limited and the Arana Therapeutics Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report under the heading "remuneration report" in sections A to D of the directors' report and not in the financial report.

*Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' report*

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

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

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





Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our web site: http://pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

*Matters relating to the electronic presentation of the audited financial report*

This audit report relates to the financial report and remuneration disclosures of Arana Therapeutics Limited (the company) for the financial year ended 30 September 2008 included on the Arana Therapeutics Limited web site. The company's directors are responsible for the integrity of the Arana Therapeutics Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the statements and remuneration disclosures named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

*Independence*

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

*Auditor's opinion on the financial report*

In our opinion:

(a) the financial report of Arana Therapeutics Limited is in accordance with the ***Corporations Act 2001***, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 September 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the ***Corporations Regulations 2001***; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

*Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report*

In our opinion, the remuneration disclosures that are contained in sections A to D of the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

**M Dow**

Partner

Sydney

12 November 2008

# Shareholder Information

The shareholder information set out below was applicable as at 31 October 2008.

## (a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| | Class of equity security |
|---|---|
| | Ordinary shares |
| 1 - 1,000 | 3,205 |
| 1,001 - 5,000 | 4,816 |
| 5,001 - 10,000 | 1,630 |
| 10,001 - 100,000 | 1,687 |
| 100,001 and over | 217 |
| | 11,555 |

There were 1,613 holders of less than a marketable parcel of ordinary shares.

## (b) Equity security holders

Twenty largest quoted equity security holders. The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Ordinary shares | |
|---|---|---|
| | Number held | Percentage of issued shares |
| Rockwell Securities Limited | 29,127,362 | 12.40 |
| Start-up Australia Ventures Pty Ltd | 22,433,969 | 9.55 |
| National Nominees Ltd | 17,473,498 | 7.44 |
| ANZ Nominees Ltd | 6,879,408 | 2.93 |
| HSBC Custody Nominees (Australia) Limited | 6,056,007 | 2.58 |
| Citicorp Nominees Pty Limited | 4,035,902 | 1.72 |
| JP Morgan Nominees Australia Limited | 3,894,588 | 1.66 |
| Biofusion Capital Pty Ltd | 3,696,953 | 1.57 |
| Phillip Asset Management Limited (IB Aus BioscienceFund 1 A/C) | 2,300,000 | 0.98 |
| Irrewarra Investments Pty Ltd (ST A/C) | 2,340,555 | 0.85 |
| Merrill Lynch (Australia) Nominees Pty Ltd | 1,952,966 | 0.83 |
| Thorpe Road Nominees Pty Ltd (I E Tregoning Family A/C) | 1,918,964 | 0.82 |
| Irrewarra Investments Pty Ltd (Equity House A/C) | 1,806,914 | 0.77 |
| Mr Yet Kwong Chiang & Mrs Ho Yuk Lin Chiang | 1,800,000 | 0.77 |
| Dato Lim Sen Yap | 1,473,880 | 0.63 |
| Lee Sands Nominees Pty Ltd | 1,455,000 | 0.62 |
| HMS Nominees Ltd | 1,315,273 | 0.62 |
| Chevron Properties Pty Ltd | 1,272,943 | 0.54 |
| Mr Mark Richard Potter & Mrs Rebecca Amy Potter | 1,039,230 | 0.44 |
| Queensland University of Technology | 965,840 | 0.41 |
| | 113,239,252 | 48.19 |



## (c) Substantial holders

Substantial holders in the Company are set out below:

| Name | Ordinary shares | |
|---|---|---|
| | Number held | Percentage of issued shares |
| Lim Sen Yap | 32,181,701 | 13.70 |
| Start-up Australia Ventures Pty Ltd | 22,433,969 | 9.55 |
| Merrill Lynch & Co., Inc | 13,012,078 | 5.54 |
| Sun Hung Kai Investment Services Limited (accounts of Honest Opportunity Limited and Future Rise Investments Limited) | 11,854,898 | 5.04 |

## (d) Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

# Corporate Directory

## Directors and Executives

| | |
|---|---|
| **Chairman** | Robin Beaumont |
| **Non-Executive Directors** | Gordon Black |
| | Lincoln Chee |
| | Chris Harris |
| | George Jessup |
| **Acting Chief Executive Officer** | Steffen Nock |
| **Vice-President Business Development, Technology** | Robert Crombie |
| **Chief Medical Officer** | David Fuller |
| **Chief Financial Officer and Company Secretary** | Niall Henderson |
| **Vice-President Business Development, Products** | Cliff Holloway |
| **Chief Scientific Officer** | Phil Jennings |
| **Corporate Headquarters and Registered Office** | Level 2<br>37 Epping Road<br>Macquarie Park NSW 2113<br>Tel: +61 2 8061 9900<br>Fax: + 61 2 8061 9999<br>Email: corporate@arana.com<br>Internet: www.arana.com |
| **Principal Share Register** | Computershare Investor Services Pty Limited<br>Level 3<br>60 Carrington Street<br>Sydney, NSW 2000<br>Australia<br>GPO Box 7045<br>Sydney, NSW 2001<br>Australia<br><br>Investor Enquiries:<br>Within Australia 1300 855 080<br>Outside Australia + 61 3 9415 4000<br>Fax: + 61 3 9473 2500<br>Email: web.queries@computershare.com.au<br>Internet: www.computershare.com |
| **Stock exchange listings** | Arana Therapeutics Limited shares are listed on the Australian Securities Exchange under the issuer stock code AAH. |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