



8 April 2009

The Manager
Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sirs

**Takeover bid by Cephalon International Holdings, Inc. for Arana
Therapeutics Limited (ASX: AAH)
Supplementary Target's Statement**

In accordance with section 647(3) of the *Corporations Act 2001 (Cth)*, we attach a Supplementary Target's Statement dated 8 April 2009 which supplements the original Target's Statement dated 24 March 2009.

A copy of the Supplementary Target's Statement will be despatched to Arana shareholders on 8 April 2009.

Yours sincerely

**Niall Henderson
Company Secretary
Arana Therapeutics Limited**

encl

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This is a supplementary target's statement intended to be read with the original target's statement dated 24 March 2009 issued by Arana Therapeutics Limited ABN 98 002 951 877 (Arana) relating to the off-market takeover bid by Cephalon International Holdings, Inc. for all of the issued shares in Arana.

**Arana Therapeutics Limited
ABN 98 002 951 877**

Supplementary Target's Statement

Important Notice

This is a supplementary target's statement to the original target's statement lodged by Arana Therapeutics Limited ABN 98 002 951 877 (**Arana**) with the Australian Securities and Investment Commission on 24 March 2009 (**Original Target's Statement**), in relation to the off-market takeover bid by Cephalon International Holdings, Inc. (**Cephalon**) for all of the ordinary shares in Arana.

This supplementary document (**Supplementary Target's Statement**) should be read together with the Original Target's Statement and prevails over the Original Target's Statement to the extent there is any inconsistency between the documents. Terms and conditions defined in the Original Target's Statement have the same meaning where used in this Supplementary Target's Statement.

This Supplementary Target's Statement was lodged with ASIC on 8 April 2009. Neither ASIC nor any of its officers take any responsibility for the content of this Supplementary Target's Statement.

Additional background information

Arana wishes to provide the following further information:

1.1 Valuation of Arana Shares and Directors' recommendation

Section 3.5(d) of the Original Target's Statement highlights the difficulties in valuing Arana Shares with any degree of certainty, particularly given the current financial climate and the inherent uncertainty in valuing biotechnology assets.

The Arana Board, in assessing the Cephalon Offer, considered that Arana Shares have three primary components of value, which are referenced in the Original Target's Statement, as follows:

- » **Current cash balance** – see section 2.6(b) of the Original Target's Statement for disclosure regarding Arana's current cash balance.
- » **Expected future royalties** – see section 2.6(d) of the Original Target's Statement.
- » **Value of the Arana technology** – Arana has made all relevant disclosures to ASX, in compliance with its continuous disclosure obligations, regarding the progress of its lead candidates, technologies and the key terms of its collaboration agreements. A summary of this information is also disclosed in Sections 2.2 to 2.4 of the Original Target's Statement. This has been done to enable Arana Shareholders and their professional advisers to form their own views as to the valuation of Arana's technology.

The Arana Board in making its recommendation to Arana Shareholders to accept the Cephalon Offer (in the absence of a superior proposal) took into account the above three components, however also had to consider the value of Arana Shares in the current risk averse market. In this current market (prior to the Cephalon Offer), no value had been ascribed to the Arana technology (as Arana Shares have effectively been trading significantly below net cash plus expected future royalties). The Arana Board considers that by providing information on the above three components in the Original Target's Statement and through Arana's ASX announcements, Arana Shareholders and their professional advisers have appropriate information to make an informed assessment of the Cephalon Offer.

Arana Shareholders should review the Annual Report released to ASX on 24 December 2008 for full details of Arana's financial position, financial performance and statement of cash flows, which is available on Arana's website – www.arana.com.

1.2 Why the Directors did not commission an independent expert's report

Arana wishes to provide an explanation of its decision not to commission an independent expert's report (IER) to accompany the Original Target's Statement.

The Arana Board notes that an IER is not required under the *Corporations Act 2001 (Cth)* in the circumstances of the Cephalon Offer and that it is common for an IER to not be provided in a target's statement in circumstances where an IER is not required.

Nevertheless, the Arana Board considered whether or not to commission an IER and made the decision not to do so for a number of reasons, including:

(a) Cephalon cash consideration

The Cephalon Offer consisted only of cash consideration and as such did not involve any complexities in determining the value of that consideration (in contrast, for example, to scrip consideration). An IER was therefore not necessary to value the cash consideration offered by Cephalon. The Arana Board therefore only needed to consider whether an IER was necessary to assist Arana Shareholders in determining the value of their own Arana Shares.

(b) Financial climate

In the view of the Arana Board, valuations of most asset classes have decreased substantially over the last 12 to 18 months and current financial conditions have made it very difficult to provide a meaningful financial valuation of early stage technology assets (such as the Arana technology platform and pipeline). This is compounded by the inherently uncertain nature of drug development and lengthy commercialisation process and associated risks. To an extent, this may be reflected in the current share prices for other biotechnology companies listed on ASX.

(c) Technology value

In the current risk averse Australian market, the share prices (ie market value) of many biotechnology companies listed on ASX have had a direct correlation to the relevant companies' cash backing. Some biotechnology companies have recently traded at or below their cash backing, implying the market is ascribing no value to these companies' technologies.

Importantly, prior to the announcement of the Cephalon Offer, Arana had been trading at a discount to its net cash plus expected future royalties. This is not to suggest that the Arana technology has no fair value – only that the current risk averse market, in many cases, does not appear to ascribe significant value to such

assets given the risks and time frame associated with the commercial development of those assets.

(d) No superior proposal

Following receipt of the Cephalon Offer, Arana had retained ABN AMRO Morgans Corporate Ltd (**AAM**) as Financial Advisor to assist generally in dealing with the Cephalon Offer and assist Arana in achieving the maximum value for Arana Shareholders. In this capacity, AAM contacted a large number of domestic and overseas based pharmaceutical companies to ascertain whether they were likely to make a superior proposal. As at the date of the Original Target's Statement and this Supplementary Target's Statement, no superior proposal has emerged despite such approaches.

(e) Pre-bid acceptance

Prior to the Cephalon Offer being made, Arana's two largest shareholders, Start-up Australia Ventures Pty Ltd and Rockwell Securities Ltd (who are both professional and experienced biotechnology investors), had sold in aggregate 19.8% of the total Arana Shares on issue at a price equivalent to the Offer Consideration. In the view of the Arana Board, this sale price reflected the value of Arana Shares as perceived by those parties and provided a very relevant benchmark in assessing the market value of Arana Shares.

(f) Significant premium

Given Arana's recent share price performance (as disclosed on page 24 of the Original Target's Statement), the Cephalon Offer represented a significant premium to recent trading prices of Arana Shares before the Cephalon Offer was announced. If the Cephalon Offer is not successful, the Arana share price is, in the Arana Board's view, likely to fall significantly, possibly back towards the levels prior to the Cephalon Offer.

(g) Low conditionality

Given the composition of Arana's share register and after already securing a pre bid stake of 19.8%, the Arana Board considered that the Cephalon Offer had a high probability of satisfying its 50.1% minimum acceptance condition.

1.3 Pre-bid dealings information

As disclosed in the Original Target's Statement, prior to the Cephalon Offer being made to Arana Shareholders, Arana's two largest shareholders, Start-up Australia Ventures Pty Ltd and Rockwell Securities Ltd, sold the majority of their Arana Shares to Cephalon at a price of \$1.40 per Arana Share.

Start-up Australia Ventures Pty Ltd is an entity associated with Dr George Jessup (previously an Arana director) and, as disclosed in Section 3.3 of the Original Target's Statement, Dr Jessup resigned as an Arana Director following that sale to Cephalon.

After the initial approach from Cephalon, Dr Jessup did not engage in any discussions with the other Arana Directors regarding Cephalon's approach to him or the proposed sale of Arana Shares by Start-up Australia Ventures Pty Ltd to Cephalon.

On being notified of the sale of Arana Shares by Start-up Australia Ventures Pty Ltd, the Arana Board adopted a rigorous protocol to deal with any potential conflicts of interest in relation to this pre-bid dealing, including:

- » Arana only became aware of the sale by Start-up Australia Ventures Pty Ltd and the possible takeover offer by Cephalon on the evening of 25 February 2009 (after the market had closed). Arana went into a trading halt before the start of trading on 26 February 2009 pending an announcement and later the same day announced it was in discussions regarding a potential takeover offer.
- » After becoming aware of Cephalon's approach to Dr Jessup, the Arana Board nominated Mr Beaumont and Mr Harris to establish a committee of independent directors (**IDC**) to assess the merits of the potential Cephalon Offer and make a recommendation to the full Arana Board regarding that offer.
- » The sale of Arana Shares by Start-up Australia Ventures Pty Ltd was communicated to the market on 27 February 2009 as a result of the announcement to ASX of the Cephalon Offer. Trading in Arana Shares only recommenced on 2 March 2009. Dr Jessup had no involvement nor was he privy to any deliberations of the IDC either before or since his resignation on 2 March 2009.
- » Dr Jessup participated in the annual general meeting of Arana shareholders and in the routine Arana Board meeting on 27 February 2009 following that annual general meeting, but Dr Jessup has had no participation in nor has he been present during any deliberations of the Arana Board or the IDC concerning the Cephalon Offer or any approaches to other potential parties.
- » The IDC has been responsible for all communications with Cephalon and all other stakeholders since the Cephalon Offer was announced.

On this basis, the Arana Board believes that all Board deliberations in respect of the Cephalon Offer were undertaken free from any actual influence, or appearance of influence, from Dr Jessup.

1.4 Options and performance rights

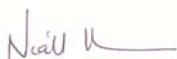
Section 4.3 of the Original Target's Statement provides information in relation to options and performance rights issued under Arana's various Performance Share Plans.

Arana wishes to clarify that there are currently no actual shares issued under the Peptech Plan (in relation to Performance Rights granted in 2007), the Arana No 1 Plan or the Arana No 2 Plan.

Authority

This Supplementary Target's Statement is issued with the authority of the Arana Board.

Dated 8 April 2009



Niall Henderson
Company Secretary
Arana Therapeutics Limited