pharmaxis

Pharmaxis Ltd

ABN 75 082 811 630

ASX Preliminary final report – 30 June 2009

Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with the Statutory Annual Report dated 12th August 2008 and any public announcements made by during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Year ended 30th June 2009
(Previous corresponding period: Year ended 30th June 2008)

<u>Results for announcement to the market</u>

				A$'000
Revenue from ordinary activities	**Down**	**32%**	to	**6,465**
Profit / (Loss) from ordinary activities after tax	**Up**	**72%**	to	**(35,171)**
Net profit / (loss) for the year attributable to members	**Up**	**72%**	to	**(35,171)**

Dividends
It is not proposed to pay a dividend

<u>Other Appendix 4E information</u>

	30 June 2009	30 June 2008
Net tangible assets per ordinary share	**$ 0.63**	$ 0.61

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

Overview

Bronchitol

We are developing Bronchitol for the management of chronic obstructive lung diseases including cystic fibrosis, bronchiectasis and other acute and chronic pulmonary conditions. Bronchitol is a proprietary formulation of mannitol administered as a dry powder in a hand-held inhaler. It is designed to hydrate the lungs, restore normal lung clearance mechanisms, and help patients clear mucus more effectively.

Major milestones achieved during the year include:

- We reported positive top line results of our first Phase III clinical trial of Bronchitol in CF. The trial which involved 325 patients with CF and was conducted across 40 sites in Europe and Australia. Based on this trial we expect to file a marketing application in Europe in the second half of 2009.
- We reported successful clinical data from our Phase II dosing trial in patients with cystic fibrosis.
- We commenced dosing our second Phase III clinical trial in patients with CF. The trial is being conducted across 65 sites in the U.S., Canada, Argentina, France, Germany, Belgium and the Netherlands. This trial is required in order for us to submit a marketing application in the U.S.
- We reported positive long-term safety data from our first Phase III clinical trial of Bronchitol in people living with bronchiectasis.
- We filed a marketing application with the Australian regulatory agency for Bronchitol for bronchiectasis.

Aridol

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

Major milestones achieved during the year include:

- We filed a new drug application with the U.S. FDA in March 2009.
- We received marketing approval in Switzerland, Malaysia and Singapore.

Other milestones

- Construction was completed on our new 7,000 square metre manufacturing and research facility at Frenchs Forest, NSW, Australia and we took possession in May 2009. Installation, commissioning and validation of our expanded manufacturing capacity commenced during the year and is scheduled to be complete in the first half of 2010.
- The preclinical studies with PXS25 were completed and it was shown to have an appropriate safety window to allow administration to human volunteers.
- Dr Howard Fox joined our senior executive team.
- U.S. life science investment manager Mr. Richard van den Broek joined our Board of Directors.

- We completed a share placement and share purchase plan in which we issued 23.1 million shares and raised A$51.2 million net of issue expenses.

Results of Operations

Sales and Gross Profit. Sales were A$0.6 million in 2009 compared to A$0.5 million in 2008 and relate to sales of our first product, Aridol. Aridol has been approved and launched in Australia, various European countries and Korea. In addition we sell Aridol to pharmaceutical companies for use in clinical trials. Sales by region are made up as follows:

Year ended 30 June	**2009**	**2008**
In thousands	**A$**	**A$**
Australia	232	216
Europe	267	137
Korea	32	-
Clinical trials	64	174
	595	527

Gross profit was approximately 74 percent and 75 percent of sales in 2009 and 2008 respectively.

Other revenue – interest. Interest and other income decreased from A$7.4 million in 2008 to A$5.3 million in 2009. The decrease in interest income is attributable to both the lower level of funds invested during 2009 and lower prevailing interest rates. We started 2009 with cash and bank accepted commercial bills of $111.8 million to which was added approximately $51.2 million in the second half of June 2009. By contrast we started 2008 with $76 million of cash and bank accepted commercial bills to which was added approximately $60 million in October and November 2007 from a share placement on the ASX and a share purchase plan. Average interest rates on bank accepted commercial bills during 2009 were significantly less than during 2008.

Other income. The main component of other income in 2009 is amounts paid to us under a contract with pharmaceutical companies for services performed by our sales representatives promoting products of the pharmaceutical companies to respiratory specialists. In 2009 we also received an Export Market Development Grant from the Australian government of A$0.15 million. In 2008 the main component of other income was grant revenue, including A$1.3 million claimed under an Australian Government Pharmaceuticals Partnerships Program grant (“P3 Grant”) awarded to us in June 2004, and an Australian Export Market Development Grant of A$0.08 million. Our claims under the P3 Grant were calculated at 30% of the increase of eligible R&D expenditure over a base amount (derived from average prior year expenditures). The P3 Grant concluded at 30 June 2008 and no further amounts are claimable.

Research and Development Expenses. Research and development expenses were $29.3 million in 2009 compared to $20.0 million in 2008.

1. Our drug discovery group, now based in our new facility at Frenchs Forest accounted for approximately 7 percent of our total research and development expenditure in the current year and decreased by approximately 10 percent or A$0.2 million compared to 2008. This group is focused on respiratory and immune disorders drug discovery. The decreased level of expenditure reflects reduced contract research required during the year.

2. Our preclinical development group accounted for approximately 6 percent of our total research and development expenditure in the current year and increased by approximately 175 percent or A$1.1 million compared to 2008. The increased level of expenditure relates to toxicology studies in PXS4159 and PXS25 and additional efficacy data in PXS25.

3. Our clinical group accounted for approximately 64 percent of our total research and development expenditure in 2009 and increased by approximately 70 percent or A$7.7 million compared to 2008. The clinical group designs and monitors the clinical trials run by us. The majority of the expenditures of this group are directed at hospitals and other services related to the conduct and analysis of clinical trials. This significant increase in expenditure reflects the number and size of clinical trials in the active dosing stage during 2009, including two Phase III clinical trial in CF.

4. Our TGA registered manufacturing facility at Frenchs Forest is predominantly focused on producing material for clinical trials, producing and analyzing material in support of regulatory filings and developing enhanced manufacturing products and processes. Manufacturing expenses for the current year have therefore mainly been classified as a research and development expenditure. Costs associated with the Aridol product sold are classified as cost of sales. Manufacturing accounted for approximately 21 percent of our total research and development expenditure in 2009 and increased by approximately 4 percent or A$0.2 million compared to 2008.

Commercial expenses. Commercial expenses were A$6.2 million in 2009 compared to A$4.6 in 2008. During 2009 we incurred expenditure in preparation for the commercial launch of Bronchitol for CF in Europe and the U.S. and in preparation for the commercial launch of Aridol in the U.S.. In 2009 we increased our sales representatives in the UK as Aridol was launched. This expenditure was in part offset by other income received from other pharmaceutical companies. The costs of our U.S. operations established part way through 2008 were incurred for the whole of 2009.

General and Administrative Expenses. General and administrative expenses were A$5.8 million in 2009 and A$5.2 million in 2008, an increase of 13 percent. In 2009 administration expenses include costs associated with expanding internationally, costs related to our larger facility at Frenchs Forest, costs to support our expanded clinical program, and impairment of trade receivables and other assets.

Finance Costs. Finance costs represent the ongoing finance charge associated with the capitalized finance lease of our new facility at Frenchs Forest. These costs commenced in May 2009.

Income Tax Expense. Income tax expense was A$0.05 million in 2009 and A$0.03 million in 2008. The expense relates to income generated by our UK and US subsidiaries which are currently reimbursed for their expenditures on a cost plus basis upon which tax is payable.

Loss. Our loss increased from A$20.4 million in 2008 to A$35.2 million in 2009 due to the significant increase in operating expenses discussed, together with a decrease in interest income.

Basic and diluted net loss per share. Basic and diluted net loss per share increased from A$0.108 in 2008 to A$0.180 in 2009 predominantly because of the increase in research and development expenses in 2009, but also partially offset by the share placement and share purchase plan in June 2009 in which we issued 23.1 million shares.

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

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

Pharmaxis Ltd
Annual financial report - 30 June 2009

Contents

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

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

Pharmaxis Ltd
20 Rodborough Road
Frenchs Forest, NSW Australia 2086.

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

The financial report was authorised for issue by the directors on 13th August 2009. The company has the power to amend and reissue the financial report.

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

Pharmaxis Ltd

Income statements

For the year ended 30 June 2009

		Consolidated			Parent entity	
		2009	2008	2007	**2009**	2008
	Notes	**$'000**	$'000	$'000	**$'000**	$'000
Revenue from continuing operations						
Revenue from sale of goods	2	**595**	527	205	**563**	531
Cost of sales		**(153)**	(129)	(49)	**(153)**	(130)
Gross profit		**442**	398	156	**410**	401
Other revenue	2	**5,347**	7,402	5,278	**5,345**	7,398
Other income	3	**523**	1,576	2,152	**320**	1,576
Other expenses from ordinary activities	4					
Research & development expenses		**(29,308)**	(19,996)	(23,840)	**(29,406)**	(20,056)
Commercial expenses		**(6,202)**	(4,557)	(3,240)	**(5,985)**	(4,644)
Administration expenses		**(5,800)**	(5,231)	(4,666)	**(5,791)**	(5,231)
Finance expenses		**(122)**	-	-	**(122)**	-
Loss before income tax		**(35,120)**	(20,408)	(24,160)	**(35,229)**	(20,556)
Income tax expense	5	**(51)**	(32)	(19)	**-**	-
Loss for the year		**(35,171)**	(20,440)	(24,179)	**(35,229)**	(20,556)
Earnings per share:		Cents	Cents	Cents	Cents	Cents
Basic earnings / (loss) per share	31	**(18.0)**	(10.8)	(13.6)	**(18.0)**	(10.9)
Diluted earnings / (loss) per share	31	**(18.0)**	(10.8)	(13.6)	**(18.0)**	(10.9)

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

Pharmaxis Ltd

Balance sheets

As at 30 June 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Parent entity 2009 $'000	Parent entity 2008 $'000
ASSETS					
Current assets					
Cash and cash equivalents	6	**124,993**	111,842	**124,797**	111,650
Trade and other receivables	7	**1,219**	6,651	**1,113**	6,617
Inventories	8	**254**	96	**247**	94
Total current assets		**126,466**	118,589	**126,157**	118,361
Non-current assets					
Receivables	9	**3,392**	1,526	**3,384**	1,521
Other financial assets	10	**248**	39	**248**	39
Property, plant and equipment	11	**32,698**	3,668	**32,625**	3,611
Intangible assets	12	**1,193**	1,227	**1,193**	1,227
Total non-current assets		**37,531**	6,460	**37,450**	6,398
Total assets		**163,997**	125,049	**163,607**	124,759
LIABILITIES					
Current liabilities					
Trade and other payables	13	**8,587**	5,709	**8,547**	5,656
Borrowings	14	**316**	-	**316**	-
Other liabilities	15	**239**	-	**239**	-
Current tax liabilities		**55**	31	**-**	-
Total current liabilities		**9,197**	5,740	**9,102**	5,656
Non-current liabilities					
Borrowings	16	**13,559**	-	**13,559**	-
Other liabilities	17	**3,307**	-	**3,307**	-
Provisions	18	**243**	188	**243**	188
Total non-current liabilities		**17,109**	188	**17,109**	188
Total liabilities		**26,306**	5,928	**26,211**	5,844
Net assets		**137,691**	119,121	**137,396**	118,915
EQUITY					
Contributed equity	19	**245,958**	194,680	**245,958**	194,680
Reserves	20(a)	**9,902**	7,439	**9,875**	7,443
Accumulated losses	20(b)	**(118,169)**	(82,998)	**(118,437)**	(83,208)
Total equity		**137,691**	119,121	**137,396**	118,915

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

Pharmaxis Ltd

Statements of changes in equity

For the year ended 30 June 2009

		Consolidated			Parent entity	
		2009	2008	2007	**2009**	2008
	Notes	**$'000**	$'000	$'000	**$'000**	$'000
Total equity at the beginning of the financial year		**119,121**	76,559	98,888	**118,915**	76,465
Exchange differences on translation of foreign operations	20(a)	**31**	(4)	(1)	**-**	-
Net income recognised directly in equity		**31**	(4)	(1)	**-**	-
Loss for the year		**(35,171)**	(20,440)	(24,179)	**(35,229)**	(20,556)
Total recognised income and expense for the year		**(35,140)**	(20,444)	(24,180)	**(35,229)**	(20,556)
Contributions of equity, net of transaction costs	19(a)	**51,278**	59,572	363	**51,278**	59,572
Employee share options	20(a)	**2,432**	3,434	1,488	**2,432**	3,434
Total equity at the end of the financial year		**137,691**	119,121	76,559	**137,396**	118,915

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

Pharmaxis Ltd

Cash flow statements

For the year ended 30 June 2009

	Notes	Consolidated			Parent entity	
		2009	2008	2007	**2009**	2008
		$'000	$'000	$'000	**$'000**	$'000
Cash flows from operating activities						
Receipts from customers (inclusive of goods and services tax)		**963**	601	191	**790**	617
Payments to suppliers and employees (inclusive of goods and services tax)		**(36,747)**	(28,299)	(28,458)	**(36,587)**	(28,511)
		(35,784)	(27,698)	(28,267)	**(35,797)**	(27,894)
Lease incentive receipt		**3,578**	-	-	**3,578**	**-**
Grant receipts from government		**443**	1,542	2,292	**443**	1,542
Interest received		**5,321**	7,348	5,278	**5,319**	7,344
Income tax paid		**(27)**	(42)	-	**-**	-
Net cash outflow from operating activities	29	**(26,469)**	(18,850)	(20,697)	**(26,457)**	(19,008)
Cash flows from investing activities						
Payments for property, plant and equipment		**(12,516)**	(1,012)	(1,182)	**(12,485)**	(962)
Instalment payments to acquire plant and equipment		**(362)**	(2,396)	-	**(362)**	(2,396)
Release/(payment) of security deposits to acquire plant and equipment		**1,498**	(1,498)	-	**1,498**	(1,498)
Proceeds from disposal of plant and equipment		**7**	1	52	**7**	1
Payments for intangible assets		**(169)**	(154)	(192)	**(169)**	(154)
Net cash outflow from investing activities		**(11,542)**	(5,059)	(1,322)	**(11,511)**	(5,009)
Cash flows from financing activities						
Net proceeds from issues of shares		**51,278**	59,572	363	**51,278**	59,572
Finance lease payments		**(163)**	-	-	**(163)**	-
Net cash inflow from financing activities		**51,115**	59,572	363	**51,115**	59,572
Net increase / (decrease) in cash and cash equivalents		**13,104**	35,663	(21,656)	**13,147**	35,555
Cash and cash equivalents at the beginning of the financial year		**111,842**	76,182	97,840	**111,650**	76,095
Effects of exchange rate changes on cash and cash equivalents		**47**	(3)	(2)	**-**	-
Cash and cash equivalents at the end of the financial year	6	**124,993**	111,842	76,182	**124,797**	111,650
Non-cash investing and financing activities	30					

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

Contents of the 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 Pharmaxis Ltd as an individual entity and the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries.

(a) Basis of preparation

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

Compliance with IFRSs

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

Historical cost convention

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

Critical accounting estimates

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

Comparatives

When classification of items in the financial report is amended, comparative amounts have been reclassified to enhance comparability.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pharmaxis Ltd ("company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Pharmaxis Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

(c) Segment reporting

A business segment is 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 Pharmaxis Ltd's functional and presentation currency.

1. Summary of significant accounting policies (continued)

(ii) Transactions and balances

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

(iii) Group companies

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

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

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

(ii) Service income

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

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, see note 1(j).

(f) Government grants

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

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

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

(g) Income tax

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

1. Summary of significant accounting policies (continued)

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

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

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

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

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

(h) Leases

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

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

(i) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

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

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

1. Summary of significant accounting policies (continued)

(k) Trade receivables

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

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

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

(l) Inventories

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

(m) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Plant and equipment	5 – 15 years
Computer equipment	4 years
Leased building and improvements	15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

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

(n) Intangible assets

(i) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the patents over their estimated useful lives, which vary from 12 to 20 years.

(ii) Trademarks

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

1. Summary of significant accounting policies (continued)

(iii) Research and development

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

(iv) Software

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

(o) Trade and other payables

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

(p) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Retirement benefit obligations

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

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Pharmaxis Employee Option Plan. Information relating to these schemes is set out in note 33. The fair value of options granted under the option 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 options.

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

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

(v) Bonus plans

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

1. Summary of significant accounting policies (continued)

(vi) Termination benefits

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

(q) Other liabilities

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

(r) Contributed equity

Ordinary shares are classified as equity.

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

(s) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(t) 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.

(u) Rounding of amounts

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

(v) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2009 reporting period. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

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 (effective from 1 January 2009)

AASB 8 may 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 will adopt AASB 8 from 1 July 2009. The segments will be reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker, however at present it is unlikely that the other segments will meet the reportable thresholds.

(ii) *Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)*

The September 2007 revised AASB 101 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 will apply the revised standard from 1 July 2009.

(iii) *AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)*

AASB 2008-1 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 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

(iv) *AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2009)*

The AASB has made amendments to AASB 2 Share-based payment, AASB 138 Intangible Assets and AASB Interpretations 9 Reassessment of Embedded Derivatives and 16 Hedges of a Net Investment in a Foreign Operation as a result to the IASB's annual improvements project. The Group will apply the amendments from 1 July 2009. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.

(v) *AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2010)*

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Group will apply the revised standards from 1 July 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(vi) *Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 (effective for annual periods commencing on or after 1 January 2010)*

The amendments made by the IASB to IFRS 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The AASB is expected to make equivalent amendments to AASB 2 shortly. The Group will apply these amendments retrospectively for the financial reporting period commencing on1 July 2009. However, as the amendments only affect the accounting in the individual entities there will be no impact on the financial statements of the Group.

(vii) *Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (effective from 1 January 2009)*

The revised AASB 123 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, as the Group already capitalises borrowing costs relating to qualifying assets.

2. Revenue

	Consolidated			Parent entity	
	2009	2008	2007	**2009**	2008
	$'000	$'000	$'000	**$'000**	$'000
Sales revenue					
Sale of goods	**595**	527	205	**563**	531
Other revenue					
Interest	**5,347**	7,402	5,278	**5,345**	7,398

3. Other income

	Consolidated			Parent entity	
	2009	2008	2007	**2009**	2008
	$'000	$'000	$'000	**$'000**	$'000
Government grants	**93**	1,358	2,152	**93**	1,358
Service income	**430**	218	-	**227**	218
	523	1,576	2,152	**320**	1,576

Service income comprised revenue received from other pharmaceutical companies for use of the Groups sales force to promote their products.

4. Expenses

	Consolidated			Parent entity	
	2009	2008	2007	**2009**	2008
Loss before income tax includes the following specific expenses:	**$'000**	$'000	$'000	**$'000**	$'000
Depreciation (note 11)					
Plant and equipment	**566**	610	631	**564**	608
Computer equipment	**196**	149	109	**175**	141
Leased building and improvements	**300**	99	51	**300**	99
Total depreciation	**1,062**	858	791	**1,039**	848
Amortisation (note 12)					
Patents	**96**	95	92	**96**	95
Trademarks	**5**	3	3	**5**	3
Software	**102**	68	53	**102**	68
Total amortisation	**203**	166	148	**203**	166
Impairment losses – financial assets					
Trade receivables	**150**	-	-	**150**	-
Other financial assets	**39**	-	-	**39**	-
Net loss on disposal of plant and equipment	**-**	6	24	**-**	6
Rental expense relating to operating leases	**774**	638	459	**619**	537
Net foreign exchange losses	**12**	96	47	**12**	98
Employee benefits expense					
Defined contribution superannuation	**761**	594	454	**662**	534
Other employee benefits expenses	**14,272**	12,592	9,007	**11,560**	11,304

5. Income tax expense

	Consolidated			Parent entity	
	2009	2008	2007	**2009**	2008
(a) Numerical reconciliation of income tax expense to prima facie tax payable	**$'000**	$'000	$'000	**$'000**	$'000
Loss before income tax expense	**(35,120)**	(20,408)	(24,160)	**(35,229)**	(20,556)
Tax at the Australian tax rate 30% (2008:30%)	**(10,536)**	(6,122)	(7,248)	**(10,569)**	(6,167)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Share-based payments	**730**	1,030	446	**730**	1,030
Government research tax incentives	**(2,331)**	(988)	(1,900)	**(2,331)**	(988)
Sundry items	**8**	6	8	**8**	6
	(12,129)	(6,074)	(8,694)	**(12,162)**	(6,119)
Over/(under) provision in prior years	**563**	18	(251)	**533**	18
Difference in overseas tax rates	**(12)**	(15)	(9)	**-**	-
Total	**(11,578)**	(6,071)	(8,954)	**(11,629)**	(6,101)
Deferred tax benefits not recognised	**11,629**	6,103	8,973	**11,629**	6,101
Income tax expense	**51**	32	19	**-**	-
This represents current income tax expense.					
(b) Deferred tax balances					
Deferred tax asset comprises temporary differences attributable to the following:					
Interest and Grant receivables	**(56)**	(363)	(231)	**(56)**	(363)
Lease balances	**26**	-	-	**26**	-
Deferred lease incentive	**1,064**	-	-	**1,064**	-
Employee benefits	**323**	303	156	**283**	260
Share capital raising costs	**1,625**	1,580	1,637	**1,625**	1,580
Other	**101**	17	2	**101**	17
	3,083	1,537	1,564	**3,043**	1,494
Deferred tax assets attributable to temporary differences which are not recognised	**(3,083)**	(1,537)	(1,564)	**(3,043)**	(1,494)
	-	-	-	**-**	-
(c) Tax losses					
Unused tax losses for which no deferred tax asset has been recognised	**139,200**	102,290	79,219	**139,200**	102,290
Potential tax benefit @ 30%	**41,760**	30,687	23,766	**41,760**	30,687

All unused tax losses were incurred by the parent entity.

6. Current assets – Cash and cash equivalents

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**627**	569	**431**	377
Deposits at call	**9,773**	1,533	**9,773**	1,533
Bank accepted commercial bills	**114,593**	109,740	**114,593**	109,740
	124,993	111,842	**124,797**	111,650

6. Current assets – Cash and cash equivalents (continued)

Interest rate risk exposure

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

7. Current assets – Trade and other receivables

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade receivables	**408**	222	**295**	210
Provision for impairment of receivables (note (b))	**(150)**	-	**(150)**	-
	258	222	**145**	210
Government research grants receivable	**-**	350	**-**	350
Prepayments (note (c))	**519**	4,241	**519**	4,241
Other receivables (note (d))	**52**	1,598	**52**	1,598
Tax related receivables	**390**	240	**397**	218
	1,219	6,651	**1,113**	6,617

(a) Past due but not impaired

As of 30 June 2009, trade receivables of $60,366 (2008: $144,244) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Up to 1 month	**54**	24	**53**	24
1 to 2 months	**3**	97	**-**	97
Over 2 months	**3**	23	**1**	22
	60	144	**54**	143

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

(b) Impaired trade receivables

As of 30 June 2009, trade receivables of $149,645 (2008: $Nil) over 6 months were impaired. These relate to one distributor which is having difficulty repaying due to limited financial resources given current economic conditions.

(c) Prepayments

Prepayments primarily relate to advance payments for items of plant and equipment.

(d) Other receivables

Other receivables primarily represent cash held at bank to cover bank guarantee facilities related to short term operating leases. The balance at 30 June 2008 represented cash held at bank to cover a letter of credit facility for the acquisition of plant and equipment.

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

(e) 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 32.

(f) Fair value and credit risk

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

8. Current assets – Inventories

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Raw materials - at cost	**122**	48	**122**	48
Work-in-progress - at cost	**70**	10	**70**	10
Finished goods - at cost	**62**	38	**55**	36
	254	96	**247**	94

9. Non-current assets – Receivables

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Other receivables (note (a))	**3,307**	1,377	**3,302**	1,372
Prepayments	**85**	149	**82**	149
	3,392	1,526	**3,384**	1,521

(a) Other receivables

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

(b) Fair value

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

(c) Risk exposure

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

10. Non-current assets – Other financial assets

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Shares in subsidiaries (note 26)	**-**	-	**-**	-
Other	**248**	39	**248**	39
	248	39	**248**	39

The cost of shares held in subsidiaries is $13 which has been rounded to $Nil for the purposes of disclosure.

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

Consolidated	Plant and equipment	Computer equipment	Leased building and improvements	Total
	$'000	$'000	$'000	$'000
At 1 July 2007				
Cost	5,223	614	354	6,191
Accumulated depreciation and impairment	(2,271)	(213)	(186)	(2,670)
Net book amount	2,952	401	168	3,521
Year ended 30 June 2008				
Opening net book amount	2,952	401	168	3,521
Additions	172	170	670	1,012
Disposals	-	(7)	-	(7)
Depreciation charge	(610)	(149)	(99)	(858)
Closing net book amount	2,514	415	739	3,668
At 30 June 2008				
Cost	5,395	768	1,024	7,187
Accumulated depreciation and impairment	(2,881)	(353)	(285)	(3,519)
Net book amount	2,514	415	739	3,668
Year ended 30 June 2009				
Opening net book amount	2,514	415	739	3,668
Exchange differences	-	8	-	8
Additions	7,903	317	21,871	30,091
Disposals	(6)	(1)	-	(7)
Depreciation charge	(566)	(196)	(300)	(1,062)
Closing net book amount	9,845	543	22,310	32,698
At 30 June 2009				
Cost	13,276	1,089	22,895	37,260
Accumulated depreciation and impairment	(3,431)	(546)	(585)	(4,562)
Net book amount	9,845	543	22,310	32,698

(a) Assets in the course of construction

The carrying amount of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Leased building and improvements	**-**	632	**-**	632
Plant and equipment	**6,599**	-	**6,599**	-
	6,599	632	**6,599**	632

(b) Leased assets

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

	Consolidated 2009	Consolidated 2008	Parent entity 2009	Parent entity 2008
Cost	**13,916**	-	**13,916**	-
Accumulated amortisation	**(126)**	-	**(126)**	-
Net book amount	**13,790**	-	**13,790**	-

12. Non-current assets – Intangible assets

Consolidated and parent entity	**Patents $'000**	**Trademarks $'000**	**Software $'000**	**Total $'000**
At 1 July 2007				
Cost	1,608	65	296	1,969
Accumulated amortisation and impairment	(668)	(3)	(59)	(730)
Net book amount	940	62	237	1,239
Year ended 30 June 2008				
Opening net book amount	940	62	237	1,239
Additions	16	35	103	154
Amortisation charge	(95)	(3)	(68)	(166)
Closing net book amount	861	94	272	1,227
At 30 June 2008				
Cost	1,624	100	399	2,123
Accumulated amortisation and impairment	(763)	(6)	(127)	(896)
Net book amount	861	94	272	1,227
Year ended 30 June 2009				
Opening net book amount	861	94	272	1,227
Additions	43	13	113	169
Amortisation charge	(96)	(5)	(102)	(203)
Closing net book amount	808	102	283	1,193
At 30 June 2009				
Cost	1,667	113	512	2,292
Accumulated amortisation and impairment	(859)	(11)	(229)	(1,099)
Net book amount	808	102	283	1,193

13. Current liabilities – Trade and other payables

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Trade payables	**1,582**	516	**1,522**	488
Other payables (note (a))	**7,005**	5,193	**6,418**	4,918
Trade payables to subsidiaries	**-**	-	**607**	250
	8,587	5,709	**8,547**	5,656

(a) Other payables

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

(b) Risk exposure

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

14. Current liabilities – Borrowings

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Secured				
Lease liabilities (note 24)	**316**	-	**316**	-

(a) Security and fair value disclosures

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

(b) Risk exposure

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

15. Current liabilities – Other liabilities

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Deferred lease incentive	**239**	-	**239**	-

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

16. Non-current liabilities – Borrowings

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Secured				
Lease liabilities (note 24)	**13,559**	-	**13,559**	-

Secured liabilities and assets pledged as security

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

17. Non-current liabilities – Other liabilities

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Deferred lease incentive	**3,307**	-	**3,307**	-

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

18. Non-current liabilities – Provisions

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Employee benefits - long service leave	**243**	188	**243**	188

19. Contributed equity

	Notes	Consolidated and Parent entity		Consolidated and Parent entity	
		2009	2008	**2009**	2008
		Shares	Shares	**$'000**	$'000
(a) Share capital					
Ordinary shares	(b),(c)				
Fully paid		**217,659,109**	194,514,762	**245,958**	194,680

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
1 July 2007	Opening balance	177,949,217		135,108
19 July 2007	Exercise of employee options	72,000	$ 0.3125	22
19 July 2007	Exercise of employee options	5,000	$ 1.7900	9
19 July 2007	Exercise of employee options	2,500	$ 1.9170	5
28 September 2007	Exercise of employee options	3,750	$ 1.7900	7
16 October 2007	Share Placement	12,820,513	$ 3.9000	50,000
1 November 2007	Exercise of employee options	10,000	$ 2.1940	22
1 November 2007	Exercise of employee options	2,500	$ 1.9170	5
9 November 2007	Exercise of employee options	400,000	$ 0.3125	125
9 November 2007	Exercise of employee options	160,000	$ 0.3125	50
16 November 2007	Share Purchase Plan	2,999,074	$ 3.9000	11,695
20 November 2007	Exercise of employee options	1,876	$ 1.7900	3
20 November 2007	Exercise of employee options	875	$ 1.9170	2
20 November 2007	Exercise of employee options	2,250	$ 2.0340	4
20 December 2007	Exercise of employee options	10,000	$ 1.7900	18
20 December 2007	Exercise of employee options	48,957	$ 1.9170	94
8 February 2008	Exercise of employee options	15,000	$ 1.1470	17
8 February 2008	Exercise of employee options	3,750	$ 1.7900	7
8 February 2008	Exercise of employee options	1,250	$ 1.9170	2
29 February 2008	Exercise of employee options	1,250	$ 1.8918	2
4 March 2008	Exercise of employee options	5,000	$ 0.8340	4
	Less: Transaction costs on share issues			(2,521)
1 July 2008	Opening balance	194,514,762		194,680
7 August 2008	Exercise of employee options	22,500	$ 0.5080	11
4 June 2009	Share Placement (initial settlement)	500,000	$ 2.3500	1,175
10 June 2009	Exercise of employee options	50,000	$ 2.1940	109
10 June 2009	Exercise of employee options	2,500	$ 1.9170	5
11 June 2009	Share Placement (main settlement)	19,500,000	$ 2.3500	45,825
30 June 2009	Share Purchase Plan	3,069,347	$ 2.3500	7,213
	Less: Transaction costs on share issues			(3,060)
		217,659,109		245,958

19. Contributed equity (continued)

(b) 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.

(c) Options

Information relating to the Pharmaxis Employee Option Plan, 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 33.

(d) Capital risk management

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

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

20. Reserves and accumulated losses

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
(a) Reserves	**$'000**	$'000	**$'000**	$'000
Share-based payments reserve	**9,875**	7,443	**9,875**	7,443
Foreign currency translation reserve	**27**	(4)	**-**	-
	9,902	7,439	**9,875**	7,443
Share-based payments reserve				
Balance 1 July	**7,443**	4,009	**7,443**	4,009
Option expense	**2,432**	3,434	**2,432**	3,434
Balance 30 June	**9,875**	7,443	**9,875**	7,443
Foreign currency translation reserve				
Balance 1 July	**(4)**	-	**-**	-
Currency translation differences arising during the year	**31**	(4)	**-**	-
Balance 30 June	**27**	(4)	**-**	-

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Balance 1 July	**(82,998)**	(62,558)	**(83,208)**	(62,652)
Net loss for the year	**(35,171)**	(20,440)	**(35,229)**	(20,556)
Balance 30 June	**(118,169)**	(82,998)	**(118,437)**	(83,208)

20. Reserves and accumulated losses (continued)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

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

(ii) Foreign currency translation reserve

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

21. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Short-term employee benefits	**2,445,024**	2,235,880	**2,445,024**	2,235,880
Post-employment benefits	**165,958**	156,613	**165,958**	156,613
Long-term benefits	**1,881**	70,445	**1,881**	70,445
Share-based payments	**1,651,472**	1,997,655	**1,651,472**	1,997,655
	4,264,335	4,460,593	**4,264,335**	4,460,593

Detailed remuneration disclosures are provided in the remuneration report under section 1.5.

(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 the remuneration report section of the Directors' Report.

(ii) Option holdings

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

2009 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
DM Hanley	1,120,000	-	-	-	1,120,000	1,120,000
AD Robertson	2,680,000	200,000	-	-	2,880,000	2,542,500
MJ McComas	240,000	-	-	-	240,000	240,000
PC Farrell	220,000	-	-	-	220,000	170,000
J Villiger	200,000	-	-	-	200,000	150,000
W Delaat	-	200,000	-	-	200,000	50,000
R. van den Broek	-	-	-	-	-	-

21. Key management personnel disclosures (continued)

Other key management personnel of the Group

2009 Name	Balance at the start of the year	Granted during the year as compensation (1)	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
B Charlton	910,000	300,000	-	-	1,210,000	796,250
JF Crapper	810,000	300,000	-	-	1,110,000	697,500
HG Fox	-	400,000	-	-	400,000	-
IA McDonald	570,000	300,000	-	-	870,000	457,500
DM McGarvey	1,410,000	300,000	-	-	1,710,000	1,297,500
GJ Phillips	955,000	300,000	-	-	1,255,000	842,500

(1) Options granted during the year covers two grant issues. The first issue in August 2008 for the financial year ended 30 June 2009 and the second issue in June 2009 for the year ended 30 June 2010.

2008 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
DM Hanley	1,120,000	-	-	-	1,120,000	1,110,000
AD Robertson	2,380,000	300,000	-	-	2,680,000	2,342,500
CPH Kiefel	68,957	-	(58,957)	(10,000)	-	-
MJ McComas	240,000	-	-	-	240,000	235,000
PC Farrell	220,000	-	-	-	220,000	120,000
J Villiger	-	200,000	-	-	200,000	100,000
Other key management personnel of the Group						
B Charlton	1,060,000	250,000	(400,000)	-	910,000	643,750
JF Crapper	560,000	250,000	-	-	810,000	547,500
IA McDonald	320,000	250,000	-	-	570,000	290,000
DM McGarvey	1,160,000	250,000	-	-	1,410,000	1,147,500
GJ Phillips	705,000	250,000	-	-	955,000	691,250

(iii) Share holdings

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

2009 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
DM Hanley	789,787	-	8,508	798,295
AD Robertson	100,000	-	-	100,000
MJ McComas	139,999	-	-	139,999
P Farrell	101,645	-	-	101,645
J Villiger	-	-	-	-
W. Delaat	-	-	25,000	25,000
R. van den Broek (1)	-	-	45,000	45,000

21. Key management personnel disclosures (continued)

Other key management personnel of the Group

2009 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Ordinary shares				
B Charlton	420,000	-	(419,954)	46
JF Crapper	2,000	-	-	2,000
HG Fox	-	-	-	-
IA McDonald	-	-	-	-
DM McGarvey	45,000	-	2,127	47,127
GJ Phillips	6,664	-	-	6,664

(1) R. van den Broek is associated with HSMR Advisors (QP) L.P, HSMR Advisors (QP) L.P, held 830,000 shares as at 30 June 2009. R. van den Broek was not a director as at 30 June 2008.

2008

Directors of Pharmaxis Ltd

Ordinary shares				
DM Hanley	784,661	-	5,126	789,787
AD Robertson	100,000	-	-	100,000
CPH Kiefel	200,000	58,957	(258,957)	-
MJ McComas	139,999	-	-	139,999
P Farrell	101,645	-	-	101,645
J Villiger	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
B Charlton	20,000	400,000	-	420,000
JF Crapper	2,000	-	-	2,000
IA McDonald	-	-	-	-
DM McGarvey	45,000	-	-	45,000
GJ Phillips	6,664	-	-	6,664

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2009.

22. Remuneration of auditors

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

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
(a) Audit services	**$**	$	**$**	$
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	**274,421**	313,420	**274,421**	313,420
Non-PricewaterhouseCoopers audit firm for the audit of the financial report of Pharmaxis Pharmaceuticals Limited	**20,467**	16,841	**-**	-
Total remuneration for audit services	**294,888**	330,261	**274,421**	313,420

22. Remuneration of auditors (continued)

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
(b) Other services				
PricewaterhouseCoopers Australian firm				
Review of government research grant claims	**-**	5,800	**-**	5,800
IT Infrastructure review	**-**	15,372	**-**	15,372
	-	21,172	**-**	21,172
PricewaterhouseCoopers China firm				
Accounting review services	**23,304**	-	**23,304**	-
Total remuneration for other services	**23,304**	21,172	**23,304**	21,172
(c) Tax services				
PricewaterhouseCoopers Australian firm				
International tax consulting and tax advice	**8,700**	11,780	**8,700**	11,780
Tax compliance services	**12,900**	12,000	**12,900**	12,000
	21,600	23,780	**21,600**	23,780
PricewaterhouseCoopers China firm				
Tax compliance services	**13,580**	-	**13,580**	-
Total remuneration for tax services	**35,180**	23,780	**35,180**	23,780

23. Contingent liabilities

The parent entity and Group had contingent liabilities at 30 June 2009 in respect of:

Government grants

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

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

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

The company continues the development and commercialisation of all three projects funded by the START Program. The total amount received under the START Program at 30 June 2009 was $4,707,817 (2008: $4,707,817).

The company completed the Australian Government's Pharmaceuticals Partnerships Program ("P3") at 30 June 2008 and received cash proceeds of $297,871 (2008: $1,320,584) as the final payment during the financial year. The Government may require the company to repay all or some of the amount of the grant together with interest in any of the following circumstances:

a) the Government determines that expenditure claimed on research projects do not meet the P3 guidelines; or

b) upon termination of the grant due to breach of agreement, change in control of the company or insolvency.

23. Contingent liabilities (continued)

Guarantees

The company's bankers have issued bank guarantees of $2,891,097 in relation to rental bond deposits for which no provision has been made in the accounts. The rental bond deposits cover the leased building which has been accounted for as a finance lease and other leased premises accounted for as operating leases. These bank guarantees are secured by security deposits held at the bank.

The company's bankers have provided a corporate credit card facility which is secured by a deposit held at the bank totalling $72,141.

The company's bankers have issued a bank guarantee of GBP70,000 in relation to corporate credit card facilities provided by an overseas affiliate of the banker to Pharmaxis Pharmaceuticals Limited. This bank guarantee is secured by a deposit held at the bank.

The company's bankers have issued a bank guarantee of USD100,000 in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis, Inc. This bank guarantee is secured by a deposit held at the bank.

24. Commitments

(a) Capital Commitments

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

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Building Fit-out				
Payable: Within one year	**135**	7,188	**135**	7,188
Plant and equipment				
Payable: Within one year	**1,357**	2,126	**1,357**	2,126

(b) Lease Commitments

(i) Non-cancellable operating leases

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

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**868**	464	**838**	444
Later than one year but not later than five years	**2,338**	728	**2,338**	728
Later than 5 years	**5,089**	-	**5,089**	-
	8,295	1,192	**8,265**	1,172

24. Commitments (continued)

(ii) Finance leases

The company has entered into an agreement concerning the lease of a custom designed manufacturing, warehousing, research and office facility of approximately 7,200 square metres, constructed to our specifications. The lease has a term of 15 years, with two options to renew of a further five years each and the option to break the lease at ten years but with financial penalties attached.

The initial minimum annual rental under the agreement for the finance lease component is $1.2 million. The operating lease component (disclosed in note 24 (b) (i)) is $0.4 million. Both components increase each year for the term of the agreement by 3.25%.

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Commitments in relation to finance leases are payable as follows:				
Within one year	**1,198**	-	**1,198**	-
Later than one year but not later than five years	**5,193**	-	**5,193**	-
Later than five years	**15,984**	-	**15,984**	-
Minimum lease payments	**22,375**	-	**22,375**	-
Future finance charges	**(8,500)**	-	**(8,500)**	-
Total lease liabilities	**13,875**	-	**13,875**	-
Representing lease liabilities:				
Current (note 14)	**316**	-	**316**	-
Non-current (note 16)	**13,559**	-	**13,559**	-
	13,875	-	**13,875**	-

(iii) Other commitments

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

25. Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 26.

(c) Key management personnel

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

25. Related party transactions (continued)

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Marketing, clinical, regulatory and administration services expenditure paid to subsidiaries	**-**	-	**4,961,884**	2,592,796

(e) Outstanding balances arising from transactions

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

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Current payables				
Subsidiaries	**-**	-	**607,108**	250,006

(f) Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

26. Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2009	Equity holding 2008
			%	**%**
Pharmaxis Pharmaceuticals Limited	United Kingdom	Ordinary	**100**	100
Pharmaxis, Inc.	United States	Ordinary	**100**	100

27. Events occurring after the balance sheet date

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:
(a) the company's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the company's state of affairs in future financial years.

28. Financial reporting by segments

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

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

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

	Consolidated			Parent entity	
	2009	2008	2007	**2009**	2008
	$'000	$'000	$'000	**$'000**	$'000
Loss for the year	**(35,171)**	(20,440)	(24,179)	**(35,229)**	(20,556)
Depreciation of property, plant & equipment	**1,062**	858	791	**1,039**	848
Amortisation of intangibles	**203**	166	148	**203**	166
Amortisation of lease incentive	**(32)**	-	-	**(32)**	-
Impairment losses – financial assets					
Trade receivables	**150**	-	-	**150**	-
Other financial assets	**39**	-	-	**39**	-
Finance charges	**122**	-	-	**122**	-
Non-cash employee benefits expense - share-based payments	**2,432**	3,434	1,488	**2,432**	3,434
Net loss on disposal of non-current assets	**-**	6	24	**-**	6
Change in operating assets and liabilities					
(Increase) in trade receivables	**(186)**	(188)	(27)	**(85)**	(176)
(Increase) / decrease in inventories	**(158)**	(17)	21	**(153)**	(15)
(Increase) / decrease in other operating assets	**(178)**	(2,508)	327	**(204)**	(2,493)
Increase / (decrease) in trade payables	**1,066**	(2,138)	1,841	**1,034**	(2,137)
Increase / (decrease) in other operating liabilities	**4,127**	1,904	(1,183)	**4,172**	1,842
Increase in other provisions	**55**	73	52	**55**	73
Net cash outflow from operating activities	**(26,469)**	(18,850)	(20,697)	**(26,457)**	(19,008)

30. Non-cash investing and financing activities

	Consolidated			Parent entity	
	2009	2008	2007	**2009**	2008
	$'000	$'000	$'000	**$'000**	$'000
Acquisition of leased building and improvements by means of finance leases	**13,916**	-	-	**13,916**	-

31. Earnings per share

	Consolidated	
	2009	2008
	Cents	Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the company	**(18.0)**	(10.8)
(b) Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	**(18.0)**	(10.8)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings / (loss) per share	**195,588,481**	189,335,187

(d) Information concerning the classification of option securities

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

32. Financial risk management

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

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

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

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

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Financial assets				
Cash and cash equivalents	**124,993**	111,842	**124,797**	111,650
Trade and other receivables	**1,219**	6,651	**1,113**	6,617
Receivables	**3,392**	1,526	**3,384**	1,521
Other financial assets	**248**	39	**248**	39
	129,852	120,058	**129,542**	119,827
Financial liabilities				
Trade and other payables	**8,587**	5,709	**8,547**	5,656
Borrowings	**13,875**	-	**13,875**	-
Other liabilities	**3,546**	-	**3,546**	-
	26,008	5,709	**25,968**	5,656

32. Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk

The Group and the parent entity operate internationally but are only exposed to minimal foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

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

	30 June 2009			30 June 2008		
	USD	**GBP**	**EUR**	USD	GBP	EUR
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**3**	**6**	**20**	9	9	83
Trade receivables	**-**	**-**	**198**	-	-	103
Prepayments	**-**	**-**	**362**	-	-	1,498
Other receivables	**127**	**149**	**-**	104	83	1,498
Trade payables	**700**	**159**	**75**	98	30	25
Other payables	**530**	**925**	**649**	288	736	1,591

The carrying amounts of the parent entity's financial assets and liabilities are denominated in Australian dollars except as set out below:

	30 June 2009			30 June 2008		
	USD	**GBP**	**EUR**	USD	GBP	EUR
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**3**	**6**	**20**	9	9	83
Trade receivables	**-**	**-**	**198**	-	-	103
Prepayments	**-**	**-**	**362**	-	-	1,498
Other receivables	**127**	**149**	**-**	104	83	1,498
Trade payables	**700**	**159**	**75**	98	30	25
Other payables	**530**	**925**	**649**	288	736	1,591
Trade payables to subsidiaries	**486**	**121**	**-**	10	240	-

Group sensitivity

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% against the GBP with all other variables held constant, the Group's and parent entity post-tax loss for the year would have been $103,000 higher/$84,000 lower (2008 EUR: $142,000 higher/$157,000 lower), mainly as a result of foreign exchange gains/losses on translation of GBP (2008: EUR) denominated financial assets/liabilities as detailed in the above table. Profit/Loss is more sensitive to movements in the Australian dollar/GBP exchange rates in 2009 than 2008 because of the increased amount of other liabilities in GBP. The Group's and parent entity exposure to other foreign exchange movements is not material.

(ii) Cash flow and fair value interest rate risk

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

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

32. Financial risk management (continued)

	30 June 2009		30 June 2008	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Cash and cash equivalents	**2.47%**	**10,400**	6.0%	2,102
Bank accepted commercial bills	**3.18%**	**114,593**	7.7%	109,740
Other receivables	**2.97%**	**3,359**	5.3%	2,921

Group sensitivity

The Group's and parent entity's main interest rate risk arises from cash and cash equivalents. At 30 June 2009, if interest rates had changed by +/- 80 basis points from the year-end rates with all other variables held constant, post-tax loss for the year would have been $1,026,819 lower/higher (2008 – change of 80 bps: $918,060 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

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

Customer credit risk is managed by the establishment of credit limits. The compliance with credit limits by customers is regularly monitored by management, as is the ageing analysis of receivable balances.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 7 and note 9.

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

	Consolidated		**Parent entity**	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Cash and cash equivalents				
A1+	**124,993**	111,842	**124,797**	111,650
Other receivables				
AA+	**-**	290	**-**	290
AA	**3,324**	2,623	**3,324**	2,623
Not rated	**35**	8	**30**	3
	3,359	2,921	**3,354**	2,916

Other receivables primarily represent bank guarantee facilities related to operating leases, corporate credit card and local payment clearing house facilities. Other receivables at 30 June 2008 also included cash held at bank to cover a letter of credit facility for the acquisition of plant and equipment.

(c) Liquidity risk

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

32. Financial risk management (continued)

Maturities of financial liabilities

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

Group - at 30 June 2009	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total contractual cash flows**	**Carrying Amount (assets)/ liabilities**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-interest bearing	8,826	239	716	2,352	12,133	12,133
Fixed rate	310	371	1,533	11,661	13,875	13,875
Total non-derivatives	9,136	610	2,249	14,013	26,008	26,008
Group - at 30 June 2008						
Non-interest bearing	5,709	-	-	-	5,709	5,709
Fixed rate	-	-	-	-	-	-
Total non-derivatives	5,709	-	-	-	5,709	5,709
Parent entity - at 30 June 2009						
Non-interest bearing	8,786	239	716	2,352	12,093	12,093
Fixed rate	310	371	1,533	11,661	13,875	13,875
Total non-derivatives	9,096	610	2,249	14,013	25,968	25,968
Parent entity - at 30 June 2008						
Non-interest bearing	5,656	-	-	-	5,656	5,656
Fixed rate	-	-	-	-	-	-
Total non-derivatives	5,656	-	-	-	5 ,656	5,656

(d) Fair value estimation

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

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

33. Share-based payments

(a) Employee Option Plan

The Pharmaxis Employee Option Plan (“EOP”) was approved by shareholders in 1999 and amended by shareholders in June 2003. The maximum number of options available to be issued under the EOP is 15% of total issued shares including the EOP. All employees and directors are eligible to participate in the EOP, but do so at the invitation of the Board. The terms of option issues are determined by the Board. Options are generally granted for no consideration and vest equally over a four year period. Once vested, the options remain exercisable for up to 10 years from the grant date or termination of employment (whichever is earlier). For options granted after 1 January 2003 the annual vesting is subject to approval by the Remuneration and Nomination Committee of the Board. The Committee gives its approval for vesting based on the achievement of individual employee’s personal annual objectives.

Options granted under the EOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

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

Set out below are details of options exercised during the year and number of shares issued to employees on the exercise of options.

Year ended 2009			**Year ended 2008**		
Exercise date	**Fair value of shares at issue date**	**Number**	**Exercise date**	**Fair value of shares at issue date**	**Number**
7 August 2008	$ 1.80	22,500	19 July 2007	$ 3.55	72,000
10 June 2009	$ 2.50	50,000	19 July 2007	$ 3.55	5,000
10 June 2009	$ 2.50	2,500	19 July 2007	$ 3.55	2,500
			28 September 2007	$ 4.05	3,750
			1 November 2007	$ 4.44	10,000
			1 November 2007	$ 4.44	2,500
			9 November 2007	$ 4.39	400,000
			9 November 2007	$ 4.39	160,000
			20 November 2007	$ 4.28	1,876
			20 November 2007	$ 4.28	875
			20 November 2007	$ 4.28	2,250
			20 December 2007	$ 4.12	10,000
			20 December 2007	$ 4.12	48,957
			8 February 2008	$ 3.20	15,000
			8 February 2008	$ 3.20	3,750
			8 February 2008	$ 3.20	1,250
			29 February 2008	$ 2.60	1,250
			4 March 2008	$ 2.47	5,000
		75,000			745,958

The fair value of shares issued on the exercise of options is the closing price at which the company’s shares were traded on the Australian Securities Exchange on the day of the exercise of the options.

There were 10,186,188 vested options at 30 June 2009 (8,413,250 at 30 June 2008). There are no options under escrow (Nil at 30 June 2008). Set out below are summaries of options granted under the plan:

33. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated and parent entity - 2009			**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
1 Dec 1999	30 Nov 2009	$0.1250	1,120,000	-	-	-	1,120,000	1,120,000
1 Sept 2001	30 August 2011	$0.3125	640,000	-	-	-	640,000	640,000
2 Dec 2001	30 Nov 2011	$0.1250	100,000	-	-	-	100,000	100,000
12 May 2003	30 June 2012	$0.3125	2,490,000	-	-	-	2,490,000	2,490,000
12 May 2003	30 Nov 2012	$0.3125	480,000	-	-	-	480,000	480,000
12 May 2003	30 April 2013	$0.3125	16,000	-	-	-	16,000	16,000
1 July 2003	30 June 2013	$0.3125	360,000	-	-	-	360,000	360,000
4 July 2003	3 July 2013	$0.3125	200,000	-	-	-	200,000	200,000
9 Dec 2003	30 Nov 2013	$0.3760	500,000	-	-	-	500,000	500,000
25 April 2004	24 April 2014	$0.5080	22,500	-	22,500	-	-	-
4 June 2004	3 June 2014	$0.4260	15,000	-	-	-	15,000	15,000
2 Feb 2005	1 Feb 2015	$0.8340	235,000	-	-	-	235,000	235,000
12 May 2005	11 May 2015	$1.1470	290,000	-	-	-	290,000	290,000
5 Aug 2005	4 August 2015	$1.7900	755,000	-	-	7,500	747,500	747,500
17 Oct 2005	16 Oct 2015	$2.7720	70,000	-	-	17,500	52,500	52,500
13 Feb 2006	12 Feb 2016	$2.1940	245,000	-	50,000	100,000	95,000	58,750
1 June 2006	31 May 2016	$2.0340	87,500	-	-	-	87,500	65,625
15 Aug 2006	14 Aug 2016	$1.9170	604,250	-	2,500	14,500	587,250	439,813
26 Oct 2006	14 Aug 2016	$1.9170	230,000	-	-	-	230,000	192,500
20 Sept 2006	19 Sept 2016	$1.8918	42,500	-	-	-	42,500	31,875
26 Oct 2006	15 Mar 2016	$2.0680	200,000	-	-	-	200,000	150,000
14 Dec 2006	13 Dec 2016	$3.0710	45,000	-	-	-	45,000	33,750
18 Jun 2007	17 Jun 2017	$3.3155	192,500	-	-	35,000	157,500	78,750
10 Aug 2007	9 Aug 2017	$3.3890	1,617,000	-	-	60,750	1,556,250	778,125
5 Nov 2007	9 Aug 2017	$3.3890	150,000	-	-	-	150,000	75,000
5 Nov 2007	14 Nov 2016	$3.2258	200,000	-	-	-	200,000	150,000
6 Nov 2007	5 Nov 2017	$4.2900	517,000	-	-	10,000	507,000	366,000
14 Dec 2007	13 Dec 2017	$4.1373	4,000	-	-	2,000	2,000	1,000
8 Feb 2008	7 Feb 2018	$3.2666	18,500	-	-	-	18,500	4,625
11 Apr 2008	10 Apr 2018	$2.1135	16,000	-	-	2,000	14,000	3,500
23 June 2008	22 June 2018	$1.5990	73,500	-	-	12,500	61,000	15,250
23 Oct 2008	22 June 2018	$1.5990	-	200,000	-	-	200,000	50,000
12 Aug 2008	11 Aug 2018	$1.8170	-	1,479,500	-	104,500	1,375,000	343,750
23 Oct 2008	11 Aug 2018	$1.8170	-	200,000	-	-	200,000	50,000
23 Oct 2008	22 Oct 2018	$1.6060	-	162,500	-	5,000	157,500	39,375
11 Dec 2008	10 Dec 2018	$1.1607	-	50,000	-	-	50,000	12,500
5 Feb 2009	4 Feb 2019	$1.3380	-	276,000	-	-	276,000	-
23 Apr 2009	22 Apr 2019	$1.9574	-	7,500	-	-	7,500	-
23 Jun 2009	22 Jun 2019	$2.5498	-	1,609,500	-	-	1,609,500	-
Total			11,536,250	3,985,000	75,000	371,250	15,075,000	10,186,188
Weighted average exercise price			$ 1.422	$ 2.052	$ 1.679	$ 2.436	$ 1.562	$ 1.153

33. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated and parent entity - 2008			**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
1 Dec 1999	30 Nov 2009	$0.1250	1,120,000	-	-	-	1,120,000	1,120,000
1 Sept 2001	30 August 2011	$0.3125	640,000	-	-	-	640,000	640,000
2 Dec 2001	30 Nov 2011	$0.1250	100,000	-	-	-	100,000	100,000
12 May 2003	30 June 2012	$0.3125	3,122,000	-	632,000	-	2,490,000	2,490,000
12 May 2003	30 Nov 2012	$0.3125	480,000	-	-	-	480,000	480,000
12 May 2003	30 April 2013	$0.3125	16,000	-	-	-	16,000	16,000
1 July 2003	30 June 2013	$0.3125	360,000	-	-	-	360,000	360,000
4 July 2003	3 July 2013	$0.3125	200,000	-	-	-	200,000	200,000
9 Dec 2003	30 Nov 2013	$0.3760	500,000	-	-	-	500,000	500,000
25 April 2004	24 April 2014	$0.5080	22,500	-	-	-	22,500	22,500
4 June 2004	3 June 2014	$0.4260	15,000	-	-	-	15,000	15,000
2 Feb 2005	1 Feb 2015	$0.8340	240,000	-	5,000	-	235,000	190,000
12 May 2005	11 May 2015	$1.1470	320,000	-	15,000	15,000	290,000	230,000
5 Aug 2005	4 August 2015	$1.7900	800,000	-	24,376	20,624	755,000	566,250
17 Oct 2005	16 Oct 2015	$2.7720	70,000	-	-	-	70,000	52,500
13 Feb 2006	12 Feb 2016	$2.1940	270,000	-	10,000	15,000	245,000	122,500
1 June 2006	31 May 2016	$2.0340	96,500	-	2,250	6,750	87,500	43,750
15 Aug 2006	14 Aug 2016	$1.9170	627,250	-	7,125	15,875	604,250	302,125
26 Oct 2006	14 Aug 2016	$1.9170	278,957	-	48,957	-	230,000	155,000
20 Sept 2006	19 Sept 2016	$1.8918	47,500	-	1,250	3,750	42,500	21,250
26 Oct 2006	15 Mar 2016	$2.0680	200,000	-	-	-	200,000	100,000
14 Dec 2006	13 Dec 2016	$3.0710	72,500	-	-	27,500	45,000	22,500
18 Jun 2007	17 Jun 2017	$3.3155	237,500	-	-	45,000	192,500	48,125
10 Aug 2007	9 Aug 2017	$3.3890	-	1,736,000	-	119,000	1,617,000	404,250
5 Nov 2007	9 Aug 2017	$3.3890	-	150,000	-	-	150,000	37,500
5 Nov 2007	14 Nov 2016	$3.2258	-	200,000	-	-	200,000	100,000
6 Nov 2007	5 Nov 2017	$4.2900	-	527,000	-	10,000	517,000	73,000
14 Dec 2007	13 Dec 2017	$4.1373	-	6,000	-	2,000	4,000	1,000
8 Feb 2008	7 Feb 2018	$3.2666	-	18,500	-	-	18,500	-
11 Apr 2008	10 Apr 2018	$2.1135	-	16,000	-	-	16,000	-
23 June 2008	22 June 2018	$1.5990	-	73,500	-	-	73,500	-
Total			9,835,707	2,727,000	745,958	280,499	11,536,250	8,413,250
Weighted average exercise price			$ 0.823	$ 3.496	$ 0.535	$ 2.946	$ 1.422	$ 0.843

There were 371,250 options forfeited during 2009 (280,499 options during 2008).

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.06 years (2008 – 5.92 years).

33. Share-based payments (continued)

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2009 is detailed in the table below. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the weighted average share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 are as follows:

Grant date	No. of options granted	Exercise Price	Share Price	Time to expiration (days)	Volatility (%)	Annual interest rate (%)	Option value
Consolidated and parent entity - 2009							
23 Oct 2008	200,000	$1.5990	$1.58	2,190	50.00	4.69	$0.8537
12 Aug 2008	1,479,500	$1.8170	$1.93	2,190	50.00	5.78	$1.0064
23 Oct 2008	200,000	$1.8170	$1.58	2,190	50.00	4.69	$0.9701
23 Oct 2008	162,500	$1.6060	$1.58	2,190	50.00	4.69	$0.8574
11 Dec 2008	50,000	$1.1607	$1.05	2,190	50.00	3.75	$0.6056
5 Feb 2009	276,000	$1.3380	$1.13	2,190	50.00	3.60	$0.6949
23 Apr 2009	7,500	$1.9574	$2.14	2,190	50.00	4.05	$1.0250
23 Jun 2009	1,609,500	$2.5498	$2.33	2,190	50.00	5.33	$1.3873
	3,985,000						
Consolidated and parent entity – 2008							
10 Aug 2007	1,736,000	$3.3890	$3.3890	2,190	40.81	6.14	$1.6678
5 Nov 2007	150,000	$3.3890	$3.3890	2,190	40.81	6.14	$1.6932
5 Nov 2007	200,000	$3.2258	$3.2258	2,190	40.81	6.14	$1.6117
6 Nov 2007	527,000	$4.2900	$4.2900	2,190	40.81	6.55	$2.1434
14 Dec 2007	6,000	$4.1373	$4.1373	2,190	40.81	6.55	$2.0671
8 Feb 2008	18,500	$3.2666	$3.2666	2,190	40.81	6.38	$1.6404
11 Apr 2008	16,000	$2.1135	$2.1135	2,190	40.81	6.15	$1.0523
23 June 2008	73,500	$1.5990	$1.5990	2,190	50.00	6.70	$0.9045
	2,727,000						

The options are issued for no consideration.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) 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	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Options issued under employee option plan	**2,432**	3,434	**2,432**	3,434