

# NOTICE OF GENERAL MEETING

## CHEMGENEX PHARMACEUTICALS LTD

ACN 000 248 304

Notice is given that a general meeting of  
ChemGenex Pharmaceuticals Ltd (**Company**) will be held at:

Location: RBS Morgans Limited, Port Philip Room,  
Level 27, 367 Collins Street, Melbourne, Victoria  
Date: 21 December 2010  
Time 10.00am

### **SPECIAL BUSINESS**

#### **Approval of issue of Shares**

To consider, and if in favour, to pass the following resolution as an ordinary resolution:

'That for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve the issue to Cephalon International or any Cephalon Transferee of up to 30,000,000 Shares on conversion of the Notes (subject to any adjustment arising under the terms of the Notes), on the basis as detailed in the Explanatory Memorandum.'

Dated 12 November 2010

By order of the board



James Campbell  
Company secretary

#### **Notes**

- (a) Terms used in this Notice of Meeting which are defined in the Explanatory Memorandum have the meaning given to them in the Explanatory Memorandum.
- (b) A Shareholder who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.
- (c) The proxy need not be a Shareholder of the Company. A Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
- (d) If you wish to appoint a proxy and are entitled to do so, then complete and return the **enclosed** proxy form.
- (e) A corporation may elect to appoint a representative, rather than appoint a proxy, under the Corporations Act in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.
- (f) The Company has determined under regulation 7.11.37 Corporations Regulations 2001 that for the purpose of voting at the meeting or adjourned meeting, Shares are taken to be held by those persons recorded in the Company's register of shareholders as at 10.00am (Sydney time) on 19 December 2010.
- (g) If you have any queries on how to cast your votes call James Campbell on (03) 5223 9902 during business hours.

#### **Voting restrictions**

In accordance with item 7 of section 611 Corporations Act, no votes may be cast on the Resolution by Cephalon International or any of its Associates and any votes cast by such a person will be disregarded. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, under the directions on the proxy voting form;  
or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, under a direction on the proxy form to vote as the proxy decides.

# EXPLANATORY MEMORANDUM

## CHEMGENEX PHARMACEUTICALS LTD

ACN 000 248 304

### 1 Background

- 1.1 As announced to ASX on 22 October 2010, the Company has entered into the Convertible Note Subscription Deed with Cephalon International Holdings, Inc. (**Cephalon International**) under which Cephalon International has agreed to subscribe for up to A\$15 million of convertible notes. These Notes are convertible at A\$0.50 per Share (or as adjusted in accordance with the terms of the Notes).
- 1.2 The Company will use the funding received from the issue of the Notes to fund its operations, including the collection and analysis of patient data for inclusion in the Company's planned NDA submission for omacetaxine for the treatment of chronic myelogenous leukemia patients who have failed two or more approved tyrosine kinase inhibitors. The collection and analysis of patient data (referred to as the **Data Collection Plan** in this Explanatory Memorandum) is an essential step towards obtaining regulatory approval for omacetaxine. The funding arrangement with Cephalon International is therefore an important transaction for the Company.
- 1.3 Cephalon International is a wholly owned subsidiary of Cephalon, Inc. (**Cephalon**), a major international biopharmaceutical company headquartered in the United States. Please see Section 4 below for further details.
- 1.4 In accordance with the terms of the Convertible Note Subscription Deed, the Company is seeking the approval of Shareholders to allow Cephalon International or any Cephalon Transferee to increase its Relevant Interest in Shares on conversion of the Notes. This approval is being sought by way of the Resolution.
- 1.5 For the reasons set out in this Explanatory Memorandum, the Directors unanimously recommend that Shareholders vote in favour of the Resolution. Each Director who holds or controls Shares intends to vote those Shares in favour of the Resolution.

### Key terms of the Notes

- 1.6 The key terms of the Notes are:
  - (a) A\$10 million was drawn down (and 10 million Notes issued) (**First Tranche**) on 26 October 2010.
  - (b) A further A\$5 million will be drawn down (and 5 million Notes issued) (**Second Tranche**) if the following conditions subsequent under the Convertible Note Subscription Deed (**Conditions**) are satisfied or waived by Cephalon International:
    - (i) the Shareholders approve the Resolution by 31 December 2010; and
    - (ii) from 22 October 2010 until the date on which the Resolution is passed by Shareholders:
      - (A) no Event of Default under the Convertible Note Subscription Deed occurs which is not waived by, or remedied to the satisfaction of, Cephalon International; and
      - (B) no breach or other event occurs which, with notice, time or both, would become an Event of Default, which is not waived by, or remedied to the satisfaction of, Cephalon International.

- (c) If the Conditions are not satisfied:
  - (i) Cephalon International may (but is not obliged to) require redemption of the First Tranche of Notes; and
  - (ii) Cephalon International may (but is not obliged to) subscribe for the Second Tranche of Notes.
- (d) The Notes bear interest at 10% per annum. However, if the Resolution is passed by 31 December 2010 and no event or breach which is, or may become, an Event of Default under the terms of the Notes has occurred by the date on which the Resolution is passed, the Notes will be interest free.
- (e) The Notes may be converted into Shares in accordance with their terms at a conversion price of A\$0.50 per Share (or as adjusted in accordance with the terms of the Notes).
- (f) Cephalon has taken a charge over the Company's assets as security for performance of the Company's obligations under the Notes.

1.7 Please refer to Section 7 below for a more detailed summary of the material terms of the Notes.

## **Option agreements**

1.8 Cephalon International has also entered into option agreements with two of the Company's major shareholders, Stragen International N.V. and Merck Santé S.A.S. Under the option agreements, Cephalon International has the right to acquire up to 56,386,425 Shares (Options). The Options have the effect of giving Cephalon International an immediate Relevant Interest in 19.9% of the Shares on issue, regardless of whether the Options are exercised.

1.9 The Options are exercisable by Cephalon International at any time before the later of 31 March 2011 and one week after the completion of the Data Collection Plan. The option exercise price is A\$0.70 per share. Stragen International N.V. and Merck Santé S.A.S. received no fee or other consideration from any member of the Cephalon Group for the grant of the Options apart from an undertaking by Cephalon International to pay an option fee of A\$10.00 to each of them.

1.10 Shareholders should note that there is no certainty that Cephalon International will exercise the Options.

1.11 Cephalon International is entitled to transfer the Options to any other member of the Cephalon Group.

## 2 Approval under item 7 of section 611 Corporations Act

- 2.1 Section 606(1) of the Corporations Act prohibits a person from acquiring a Relevant Interest in issued voting shares in a listed company if, as a result of the acquisition, any person's Voting Power in the company would increase above 20%.
- 2.2 Cephalon International's Voting Power in the Company is currently 19.9% as a result of the Options.
- 2.3 The table below shows Cephalon International's current Voting Power and the maximum possible Voting Power that it will have after the conversion of the Notes<sup>1</sup>:

<b>Circumstance</b>	<b>Shares in which Cephalon International and its Associates have a Relevant Interest</b>	<b>Total Shares on issue</b>	<b>Cephalon International's Voting Power</b>	<b>Increase in Cephalon International's Voting Power</b>
As at the date of this Notice of Meeting	56,386,425	283,348,870	19.9%	0%
First Tranche of Notes is converted into Shares	76,386,425	303,348,870	25.18%	5.28%
First and Second Tranches of Notes are converted into Shares	86,386,425	313,348,870	27.57%	7.67%

- 2.4 Conversion of the Notes into Shares to the extent noted in the table above would result in Cephalon International exceeding the 20% threshold in section 606(1) of the Corporations Act.
- 2.5 Item 7 of section 611 of the Corporations Act provides an exception which enables a person to exceed the 20% threshold, namely where the Shareholders at a general meeting approve the acquisition of the Relevant Interest in the Shares. Under the Convertible Note Subscription Deed, the Company agreed with Cephalon International to seek Shareholder approval for this purpose. The Company is seeking that approval by way of the Resolution.
- 2.6 As noted in paragraph 7.14 below, Cephalon International may transfer the Notes to another member of the Cephalon Group. If the Resolution is passed, it will also apply for the benefit of any Cephalon Transferee.
- 2.7 If the Resolution is passed, no further approval under the Corporations Act or the Listing Rules will be required in order for Cephalon International or any Cephalon Transferee to receive Shares on conversion of the Notes.

<sup>1</sup> Calculations assume that no adjustment is made to the conversion terms of the Notes in accordance with the Convertible Note Subscription Deed (refer paragraph 7.10 below), no interest payable under the Notes is capitalised (refer to paragraph 7.5 below), there is no change in the number of Shares on issue (other than because of conversion of the Notes) and that neither Cephalon nor its Associates acquire a Relevant Interest in any additional Shares (other than in accordance with the Notes or the Options). Please refer to Section 3.1 of the Independent Expert's Report for an illustrative calculation of the maximum number of Shares that may be issued on conversion of Notes in the event that interest is capitalised.

### 3 Directors' recommendation

3.1 Each of the Directors recommends that Shareholders vote in favour of the Resolution. Each Director who holds or controls Shares intends to vote those Shares in favour of the Resolution.

3.2 The reasons for your Directors' recommendation are set out below:

- (a) The Company's undertaking to seek Shareholder approval of the Resolution is part of an overall investment transaction with Cephalon International which has provided the Company with access to significant funding for the Company's operations, including for progressing the essential work involved in the Data Collection Plan.
- (b) The terms of the Notes are commercially advantageous for the Company because:

- (i) the conversion price of the Notes of A\$0.50 per Share represents a 13% premium to the volume weighted average price of the Shares for the one month period to 15 October 2010, in circumstances where raising equity capital from alternative sources would usually necessitate Shares or other securities to be offered at a discount; and
- (ii) the interest rate of 10% per annum (or no interest if the Resolution is passed and the other Conditions are satisfied) is more favourable than the Company could reasonably expect to obtain from other financiers for any similar or comparable facility.

- (c) Provided the other Conditions are satisfied, approval of the Resolution will result in Cephalon International advancing a further A\$5 million in funding to the Company under the Second Tranche and will mean that the Company will retain the First Tranche of funding. If Shareholder approval is not obtained, Cephalon International may elect:

- (i) not to advance the Second Tranche of A\$5 million; and
- (ii) to require repayment of the First Tranche of A\$10 million.

If Cephalon International were to make either of these elections, the Company would need to obtain significant alternative funding. No assurance can be given as to the availability, amount, timing or terms of any alternative funding. Cephalon International would be entitled to appoint a receiver if the Company was unable to comply with its obligations under the Notes and an Event of Default occurs as a consequence.

- (d) Approval of the Resolution will facilitate Cephalon International's conversion of the Notes. It will also give the Company the right, provided that:

- (i) the Data Collection Plan has been completed in accordance with the timeline set out in the Convertible Note Subscription Deed, including having been finalised by 31 March 2011;
- (ii) the other Conditions are satisfied; and
- (iii) no Event of Default or potential Event of Default has occurred,

to convert the Notes at the Company's election. The conversion of the Notes into Shares is important from Shareholders' perspective since it would:

- (i) convert Cephalon International's investment from first ranking secured debt to an equity investment ranking equally with Shares held by other Shareholders; and
- (ii) remove the need for the Company to provide for the possibility that significant funds will be required to redeem the Notes in full when they mature in October 2013.
- (e) If the Resolution is not approved, interest at a rate of 10% per annum will be (and remain) payable on the Notes.

- 3.3 Each of Alta Partners, Stragen International, Merck Santé and GBS Venture Partners (which currently hold in aggregate a total of 44.4% of the Shares) has indicated to the Directors that it supports the issue of Notes to Cephalon International and that it intends to vote in favour of the Resolution.
- 3.4 The Company commissioned BDO Australia (**Independent Expert**) to provide an assessment of whether the transaction is fair and reasonable. The Independent Expert has concluded that the transaction is fair and reasonable. A copy of the Independent Expert's Report is attached as Annexure B. Shareholders should review it carefully before deciding how to vote on the Resolution.
- 3.5 In addition to the considerations set out above, Shareholders should be aware of the following potential disadvantage of approving the Resolution.

If all of the Notes are issued and converted and the Options are exercised, Cephalon International will hold 27.57% of the Company's issued Shares. In those circumstances, a third party could not acquire 100% of the Company's issued capital without Cephalon International's support. This may deter a third party from making a takeover bid for the Company.

Shareholders should note, however, that there is no certainty that Cephalon International will exercise the Options and, accordingly, at this time there can be no certainty that Cephalon International will acquire a shareholding of the size noted in the previous paragraph.

- 3.6 For the reasons outlined in paragraph 3.2 above, the Directors believe the advantages associated with approving the Resolution outweigh the disadvantages and are recommending that Shareholders vote in favour of the Resolution.

## 4 Information about Cephalon

### Cephalon International

- 4.1 Cephalon International is a wholly owned subsidiary of Cephalon, Inc. (**Cephalon**). Cephalon International is the intermediate holding company of the majority of Cephalon's foreign operating subsidiaries.

### Cephalon and the Cephalon Group

- 4.2 Cephalon is an international biopharmaceutical company dedicated to the discovery, development and commercialisation of innovative products in four core therapeutic areas: central nervous system, pain, oncology and inflammatory disease. In addition to conducting an active research and development program, the Cephalon Group markets numerous branded and generic products around the world. In total, the Cephalon Group sells more than 150 products in nearly 100 countries.
- 4.3 Shares of Cephalon common stock have been listed on NASDAQ since 1991 and trade under the symbol "CEPH". As at the close of trading on 9 November 2010, Cephalon had a market capitalisation of approximately US\$4.9 billion (A\$4.96 billion based on an exchange rate as of 9 November 2010 of A\$1 = US\$1.0115).

4.4 The directors of Cephalon are:

- (a) **Dennis L. Winger** – Non-executive director
- (b) **Frank Baldino, Jr., Ph.D.** – Chairman & Chief Executive Officer
- (c) **Vaughn M. Kailian** – Non-executive director
- (d) **William P. Egan** – Non-executive director
- (e) **Charles A. Sanders, M.D.** – Non-executive director
- (f) **Kevin E. Moley** – Non-executive director
- (g) **Gail R. Wilensky, Ph.D.** – Non-executive director
- (h) **Martyn D. Greenacre** – Non-executive director

Details of the qualifications and experience of the directors are available from [www.cephalon.com/our-company](http://www.cephalon.com/our-company).

The directors of Cephalon International are:

- (a) **J. Kevin Buchi** (Chief Operating Officer of Cephalon)
- (b) **Wilco Groenhuysen** (Executive Vice President and Chief Financial Officer of Cephalon)

4.5 The following table summarises (i) the eight products the Cephalon Group markets in the United States and (ii) the Cephalon Group's products that constitute a majority of its total net sales outside of the United States:

<b>Country</b>	<b>Product</b>	<b>Indication</b>
<i>United States</i>	NUVIGIL® (armodafinil)	Excessive daytime sleepiness associated with narcolepsy
	PROVIGIL® (modafinil)	Excessive daytime sleepiness associated with narcolepsy
	GABITRIL® (tiagabine hydrochloride)	Partial seizures associated with epilepsy
	AMRIX® (cyclobenzaprine hydrochloride extended-release capsules)	Management of acute muscle spasm
	FENTORA® (fentanyl buccal tablet)	Breakthrough cancer pain management
	ACTIQ® (oral transmucosal fentanyl citrate)	Breakthrough cancer pain management
	TREANDA® (bendamustine hydrochloride)	Chronic lymphocytic leukemia
	TRISENOX® (arsenic trioxide)	Acute promyelocytic leukemia
<i>Other countries</i>	ABELCET® (amphotericin B lipid complex)(1)	Anti-fungal
	ACTIQ (oral transmucosal fentanyl citrate)	Breakthrough cancer pain management
	APO-GO® (apomorphine)	Management of Parkinson's Disease
	DILZEM® (diltiazem)	Angina and mild to moderate hypertension
	EFFENTORA® (fentanyl buccal tablet)	Breakthrough cancer pain management
	MYOCET® (liposomal doxorubicin)	Metastatic breast cancer
	NAXY® and MONO-NAXY® (clarithromycin)(2)	Antibiotic
	PROVIGIL (modafinil)(3)	Excessive daytime sleepiness associated with narcolepsy
	SPASFON® (phloroglucinol)	Biliary/urinary tract spasm and irritable bowel syndrome
	TARGRETIN® (bexarotene)(4)	Cutaneous T-cell lymphoma
VOGALENE® (metopimazine)	Antiemetic / Antinausea	

(1) ABELCET is licensed from Bristol Myers Squibb.

(2) NAXY and MONO-NAXY are licensed from Abbott France.

(3) Marketed under the name MODIODAL® (modafinil) in France and under the name VIGIL® (modafinil) in Germany.

(4) TARGRETIN is licensed from Ligand Pharmaceuticals.

4.6 In addition to the products listed above, Cephalon, through its subsidiary, Mepha GmbH, markets branded and non-branded generics and speciality products in more than 50 countries in Europe, the Middle East, Africa, South and Central America and Asia.

4.7 Below is a summary of selected consolidated financial data for Cephalon for the last three financial years:

	<b>(US\$000's)</b>		
	<b>Year ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Statement of operations data:</b>			
Total revenues	2,192,308	1,974,554	1,772,638
Net income (loss)	342,627	192,962	(226,429)
	<b>As at December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Balance sheet data:</b>			
Cash, cash equivalents and investments	1,647,635	524,459	826,265
Total assets	4,658,095	3,082,942	3,395,759
Stockholders' equity	2,478,073	1,416,680	1,191,557

4.8 As a publicly listed company, Cephalon is subject to various periodical disclosure obligations under U.S. law. A substantial amount of information concerning Cephalon is publicly available and may be accessed by referring to [www.cephalon.com](http://www.cephalon.com).



## 5 Other important information

5.1 The Corporations Act and ASIC Regulatory Guide 74 set out additional information to be provided to Shareholders when seeking approval under Item 7 of Section 611 Corporations Act, to allow the Shareholders to assess the merits of the proposal. This information is set out in the table below (to the extent that it is not otherwise included in this Explanatory Memorandum).

Required information	Details
Who will be issued the Shares on conversion of the Notes?	Cephalon International or any Cephalon Transferee to which Notes are transferred.
Who will have a relevant interest in the Shares issued on conversion of the Notes?	Cephalon International, Cephalon and each of the entities listed in Annexure A will have a relevant interest in the Shares issued on conversion of the Notes.
Who are Cephalon International's Associates?	Cephalon and each of the entities listed in Annexure A are Associates of Cephalon International.
What will Cephalon International's Voting Power be on conversion of the Notes?	Cephalon International's current Voting Power and the maximum increase of Cephalon International's Voting Power on conversion of the Notes is set out in the table in paragraph 2.3 above.
What are Cephalon International's intentions in relation to the Company?	<p>This section sets out Cephalon International's present intentions concerning the matters set out below, on the basis of facts and information known to Cephalon International as at the date of this document. The present intentions of Cephalon International set out below may change as a consequence of the passage of time or a change in circumstances of the Company or the Cephalon Group. The intentions of Cephalon International set out in this section are also the intentions of Cephalon.</p> <p>On the basis set out above, Cephalon International has confirmed to the Company that as of the date of this document it:</p> <ul style="list-style-type: none"> <li>(a) has no intention of making changes to the business of the Company;</li> <li>(b) except for the Second Tranche, does not have any intention to inject further capital into the Company;</li> <li>(c) has no intention regarding the future employment of the Company's employees;</li> <li>(d) does not intend to redeploy any fixed assets of the Company;</li> <li>(e) has no intention to change the Company's existing policies in relation to financial matters or dividend policy;</li> <li>(f) has no intentions regarding the composition of the board; and</li> <li>(g) has no intention to convert Notes, exercise the Options or make any other acquisition of Shares (any decision in respect of which will be dependent on the circumstances of the Company and the Cephalon Group at the relevant time).</li> </ul>
Are there any proposals for the transfer of property between the Company and Cephalon International or Cephalon International's Associates?	<p>Cephalon International has confirmed to the Company that there are no such proposals.</p> <p>Cephalon International has a fixed and floating charge over the assets of the Company as security for performance of the Company's obligations under the Convertible Note Subscription Deed.</p> <p>If the Company completes the Data Collection Plan by 31 March 2011, the charge will be released.</p>

Required information	Details																								
When will conversion of the Notes occur?	<p>Cephalon International may convert the Notes to Shares at any time provided that it is able to do so without contravening the Corporations Act.</p> <p>The Company may convert the Notes to Shares where:</p> <p>(a) the Conditions are satisfied;</p> <p>(b) the Data Collection Plan has been completed in accordance with the timeline set out in the Convertible Note Subscription Deed, including having been finalised by 31 March 2011; and</p> <p>(c) no Event of Default or potential Event of Default has occurred.</p>																								
What are the interests of the Directors in the Resolution?	<p>The interests held by Directors in the Company are as set out below:</p> <table border="1" data-bbox="662 607 1474 1010"> <thead> <tr> <th data-bbox="662 607 981 685">Director</th> <th data-bbox="981 607 1230 685">Shares held</th> <th data-bbox="1230 607 1474 685">Options held over Shares</th> </tr> </thead> <tbody> <tr> <td data-bbox="662 685 981 730">J.B.L Heading</td> <td data-bbox="981 685 1230 730">131,562</td> <td data-bbox="1230 685 1474 730">253,333</td> </tr> <tr> <td data-bbox="662 730 981 775">Dr. G.R. Collier</td> <td data-bbox="981 730 1230 775">410,143</td> <td data-bbox="1230 730 1474 775">3,380,000</td> </tr> <tr> <td data-bbox="662 775 981 819">E. J. Schnee</td> <td data-bbox="981 775 1230 819">24,097,922</td> <td data-bbox="1230 775 1474 819">250,000</td> </tr> <tr> <td data-bbox="662 819 981 864">Dr. G.E.D. Brooke</td> <td data-bbox="981 819 1230 864">21,942,255</td> <td data-bbox="1230 819 1474 864">2,986,065</td> </tr> <tr> <td data-bbox="662 864 981 909">D.S. Janney</td> <td data-bbox="981 864 1230 909">42,672,641</td> <td data-bbox="1230 864 1474 909">6,338,053</td> </tr> <tr> <td data-bbox="662 909 981 954">Dr. G. Morstyn</td> <td data-bbox="981 909 1230 954">41,375</td> <td data-bbox="1230 909 1474 954">250,000</td> </tr> <tr> <td data-bbox="662 954 981 1010">J. Tétard</td> <td data-bbox="981 954 1230 1010">37,235,343</td> <td data-bbox="1230 954 1474 1010">250,000</td> </tr> </tbody> </table> <p>The Shares and options listed above in respect of Messrs Schnee, Brooke, Janney and Tétard include Shares and options held by other entities of which they are directors.</p> <p>The Directors have interests in the Resolution as Shareholders of the Company, however, these interests are held in common with the other Shareholders and do not prevent them from voting on the Resolution in their capacity as Shareholders.</p>	Director	Shares held	Options held over Shares	J.B.L Heading	131,562	253,333	Dr. G.R. Collier	410,143	3,380,000	E. J. Schnee	24,097,922	250,000	Dr. G.E.D. Brooke	21,942,255	2,986,065	D.S. Janney	42,672,641	6,338,053	Dr. G. Morstyn	41,375	250,000	J. Tétard	37,235,343	250,000
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Which Directors approved or voted against the proposal to put the Resolution to Shareholders?	All of the Directors voted in favour of the proposal to put the Resolution to Shareholders.																								
What are the consequences if the Resolution is not approved?	<p>If the Resolution is not approved by 31 December 2010:</p> <p>(a) interest at a rate of 10% per annum will be (and remain) payable on the Notes;</p> <p>(b) Cephalon International will not be obliged to subscribe for the second A\$5 million tranche of Notes;</p> <p>(c) Cephalon International will have the option of redeeming all or any Notes on 20 business days' notice;</p> <p>(d) Cephalon International will be entitled to appoint a receiver if the Company is unable to comply with its obligations under the Notes; and</p> <p>(e) Cephalon International may elect to continue to hold the Notes and convert them to Shares where it is able to do so in accordance with the Corporations Act.</p>																								
Is any additional information required by the ASX Listing Rules?	The Company is not aware of any additional information that is required by the ASX Listing Rules.																								

## **6 Exceptions to ASX Listing Rule 7.1**

- 6.1 ASX Listing Rule 7.1 provides that (subject to certain exceptions) the prior approval of Shareholders is required for an issue of securities if the securities will, when aggregated with the securities issued by the entity during the previous 12 months, exceed 15% of the number of the securities at the commencement of that 12 month period.
- 6.2 ASX Listing Rule 7.2 (exception 16) provides that where the shareholders of the entity have approved the issuance of the securities for the purposes of item 7 of section 611 Corporations Act, the issue will be treated as having been made with approval for the purpose of ASX Listing Rule 7.1, so that the entity's 15% capacity is not reduced.
- 6.3 Accordingly, if the Resolution is passed by Shareholders, the issuance of new Shares to Cephalon International on the conversion of the Notes will not reduce the Company's ability to issue new Shares for other purposes (without Shareholder approval) during the next 12 months.
- 6.4 However, please note that the Company has agreed with Cephalon International not to issue further Shares or other securities except in limited circumstances. Please refer to paragraph 7.16 below for further details.

## **7 Summary of the material terms of the Notes**

- 7.1 The Company's obligations in respect of Notes are contained in the Convertible Note Subscription Deed. The material terms of the Convertible Note Subscription Deed are summarised below.

### **Issue and Conditions**

- 7.2 A\$10 million was drawn down (and 10 million Notes issued) on 26 October 2010.
- 7.3 A further A\$5 million will be drawn down (and 5 million Notes issued) in the Second Tranche if the Conditions are satisfied, or waived by Cephalon International.
- 7.4 If the Conditions are not satisfied:
  - (a) Cephalon International may (but is not obliged to) require redemption of the First Tranche of Notes; and
  - (b) Cephalon International may (but is not obliged to) subscribe for the Second Tranche of Notes.

### **Interest**

- 7.5 Subject to paragraph 7.6 below, interest is payable on the face value of each Note at a rate of 10% per annum until the Notes are converted or redeemed. On a quarterly basis, Cephalon International may request that accrued interest on any Note be capitalised. Upon such request, the Company may elect to capitalise the accrued interest or pay the accrued interest to Cephalon International. Capitalisation of interest, if it occurs, will increase the principal amount available for conversion into Shares and thereby increase the number of Shares into which the Notes may convert. Please refer to Section 3.1 of the Independent Expert's Report for an illustrative calculation of the maximum number of Shares that may be issued on conversion of Notes if interest is capitalised.
- 7.6 If the Conditions are satisfied, interest (including already accrued interest) will not be payable on the Notes.

## Conversion

- 7.7 Cephalon International may convert the Notes into Shares at any time provided it is able to do so without contravening the Corporations Act.
- 7.8 The Company may at its election convert the Notes into Shares if:
- (a) the Conditions are satisfied;
  - (b) the Data Collection Plan is completed in accordance with the timeline set out in the Convertible Note Subscription Deed, including having been finalised by 31 March 2011;
  - (c) no Event of Default under the Convertible Note Subscription Deed has occurred which has not been waived by, or remedied to the satisfaction of, Cephalon International; and
  - (d) no breach or other event has occurred which, with notice, time or both, would become an Event of Default, which is not waived by, or remedied to the satisfaction of, Cephalon International.
- 7.9 Notes will be converted at a conversion price of A\$0.50 per Share (or as adjusted in accordance with the terms of the Notes).
- 7.10 In the event of any change to the capital of the Company which has an effect on the position of Cephalon International as a holder of Notes compared with the position of the holders of Shares in the Company (for example a reconstruction, bonus issue, rights issue or capital distribution), the conversion price of the Notes will be adjusted so as to preserve the value of Cephalon International's conversion rights. This may affect the number of Shares issued to Cephalon International on conversion of the Notes.

## Redemption

- 7.11 If the Notes have not been converted, they must be redeemed by the Company on 26 October 2013.

## Events of Default

- 7.12 The Events of Default under the Convertible Note Subscription Deed are usual for such a document and include:
- (a) an insolvency event occurring in relation to the Company;
  - (b) any change in the business, assets or circumstances of the Company which is likely to have a Material Adverse Effect; and
  - (c) the Company failing to comply with a material provision of the Convertible Note Subscription Deed including, but not limited to:
    - (i) breach of any representation or warranty in the Convertible Note Subscription Deed; or
    - (ii) failing to comply with its obligations to progress the Data Collection Plan.
- 7.13 If an Event of Default occurs which is not capable of remedy, or which is capable of remedy but which is not remedied within 5 business days of Cephalon International notifying the Company of the Event of Default, Cephalon International may elect to redeem all or any Notes on 20 business days' notice.

## **Transfer**

7.14 The Notes may be transferred by Cephalon International to any other member of the Cephalon Group without the Company's consent, so long as that other member:

- (a) is a person to whom disclosure is not needed under Part 6D.2 of the Corporations Act; and
- (b) undertakes to the Company to immediately transfer the Notes back to Cephalon International should it cease to be a member of the Cephalon Group.

7.15 Notes may only be transferred in other circumstances with the Company's consent.

## **New Share issues**

7.16 The Company has represented and warranted to Cephalon International that the Company does not foresee the need for additional funding in the period until the later of 31 March 2011 and one week after the completion of the Data Collection Plan. The Company has agreed that during that period it will not issue any Shares without Cephalon International's consent except where:

- (a) the Conditions are not satisfied or waived such that Cephalon International does not subscribe for the Second Tranche of Notes; or
- (b) an Event of Default has occurred and Cephalon International has elected that the Notes be redeemed (refer paragraphs 7.12 and 7.13 above).

## **Security**

7.17 The Company has granted Cephalon International a fixed and floating charge over the assets of the Company as security for performance of the Company's obligations under the Convertible Note Subscription Deed. If the Company completes the Data Collection Plan by 31 March 2011, the charge will be released.

## 8 Glossary of terms

In the attached Notice of Meeting and Explanatory Memorandum the following words and expressions have the following meanings:

<b>Term</b>	<b>Definition</b>
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>Associates</b>	has the meaning given in section 12 Corporations Act.
<b>ASX</b>	means ASX Limited.
<b>Cephalon</b>	Cephalon, Inc.
<b>Cephalon Group</b>	Cephalon, its Subsidiaries and its controlled entities.
<b>Cephalon International</b>	means Cephalon International Holdings, Inc. (Delaware Company Number 2353150).
<b>Cephalon Transferee</b>	A member of the Cephalon Group to which Notes are transferred in accordance with the terms of the Convertible Note Subscription Deed.
<b>Company</b>	means ChemGenex Pharmaceuticals Ltd ACN 000 248 304.
<b>Conditions</b>	means the conditions subsequent under the Convertible Note Subscription Deed as described in paragraph 1.6(b) of this Explanatory Memorandum.
<b>Convertible Note Subscription Deed</b>	means the deed between the Company and Cephalon International dated 22 October 2010 relating to the issuance of the Notes.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Data Collection Plan</b>	has the meaning given in paragraph 1.2 of this Explanatory Memorandum.
<b>Directors</b>	means the directors of the Company from time to time.
<b>Event of Default</b>	means an event of default under the Convertible Note Subscription Deed, as described in paragraph 7.12 of this Explanatory Memorandum.
<b>Explanatory Memorandum</b>	means this Explanatory Memorandum.
<b>First Tranche</b>	means the 10 million Notes issued to Cephalon International on 26 October 2010.
<b>Independent Expert</b>	means BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725.
<b>Independent Expert's Report</b>	means the independent expert's report in relation to the transaction prepared by the Independent Expert, a copy of which is set out in Annexure B.
<b>Listing Rules</b>	means the official listing rules of the ASX.
<b>Material Adverse Effect</b>	means a material adverse effect on the financial condition of the Company or its ability to meet its payment and other obligations under the Convertible Note Subscription Deed, other than an effect which occurs for reasons outside of the Company's control.
<b>NDA</b>	means a new drug application to the US FDA.
<b>Notes</b>	means the convertible notes issued by the Company to Cephalon International under the terms of the Convertible Note Subscription Deed.
<b>Notice of Meeting</b>	means the notice of general meeting which accompanies this Explanatory Memorandum.
<b>Options</b>	has the meaning giving in paragraph 1.8 of the Explanatory Memorandum.
<b>Relevant Interest</b>	has the meaning given in the Corporations Act.
<b>Resolution</b>	means the resolution set out in the Notice of Meeting to be considered and voted on by Shareholders.
<b>Second Tranche</b>	means the 5 million Notes to be issued to Cephalon International if the Conditions are satisfied or waived by Cephalon International.
<b>Shares</b>	means a share in the capital of the Company, the terms of which are contained in the constitution of the Company.
<b>Shareholders</b>	means the holders of the Shares in the Company from time to time.
<b>Subsidiary</b>	has the meaning given in the Corporations Act.
<b>US FDA</b>	means the United States Food and Drug Administration.
<b>Voting Power</b>	has the meaning given in the Corporations Act.

## Proxy form

### Section 1: Name and address of shareholder

Full name \_\_\_\_\_

Address \_\_\_\_\_

### Section 2: Appointment of proxy

I, being a shareholder of the Company and entitled to attend and vote appoint

the Chairman of the meeting  
(mark with an 'X')

OR

Write here the full name of the person or body corporate you are appointing if this person is **someone other than** the Chairman of the meeting.

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the meeting, as my proxy to attend, to vote under the following directions (or if no directions have been given, as the proxy sees fit), and to act generally on my behalf, at the general meeting of the Company to be held at:

Location	RBS Morgans Limited, Port Philip Room, Level 27, 367 Collins Street, Melbourne, Victoria
Date	21 December 2010
Time	10.00am

and at any adjournment of that meeting.

### Section 3: Voting instructions

Voting directions to proxy – please mark  to indicate your directions.

Resolution Approval of allotment and issue of Shares

For	Against	Abstain*	Discretion
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\*If you mark the Abstain box, you are directing your proxy **not** to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If you do not wish to direct the Chairman as your proxy to vote, please place a mark in this box.

By marking this box you acknowledge that the Chairman may exercise your proxy even if he or she has an interest in the outcome of the resolution, and that votes cast by him or her, other than as proxy holder, would be disregarded because of that interest.

The Chairman intends to vote all undirected proxies in favour of the Resolution being passed.

### Section 4: Signing by shareholder

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Shareholder 1	Shareholder 2 (if joint holding)	Shareholder 3 (if joint holding)
<input type="text"/>	<input type="text"/>	<input type="text"/>
Sole Director and Sole Secretary	Director/Company Secretary (delete one)	Director

Please provide the information below in case we need to contact you.

_____	_____	_____ / _____ / _____
Contact name	Contact day time telephone	Date

# Instructions for completion of proxy form

## Section 1: Name and address of shareholder

- 1 Insert your name and address. If it is a joint holding, insert details of all holders.

## Section 2: Appointment of proxy

- 2 If you wish to appoint the Chairman of the meeting as your proxy, mark the box. If the person or body corporate you wish to appoint as your proxy is someone other than the Chairman of the meeting, write the full name of that person or body corporate in the space provided. A proxy may be an individual or a body corporate. If you leave this section blank or your named proxy does not attend the Meeting, the Chairman of the meeting will be your proxy. A proxy need not be a shareholder of the Company.
- 3 If you are entitled to cast two or more votes at the general meeting, you are entitled to appoint two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional proxy form may be obtained by telephoning the Company. Alternatively you may copy this form.
- 4 To appoint a second proxy:
  - (a) on each of the first proxy form and second proxy form state the percentage of your voting rights or number of securities applicable to that form (if the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise one half of your votes, and fractions of votes will be disregarded); and
  - (b) return both forms in the same envelope.

## Section 3: Voting instructions

- 5 You may direct your proxy how to vote on an item of business by placing a mark in one of the three boxes opposite that item of business. All of your securities will be voted in accordance with your direction unless you indicate a proportion of voting rights on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may decide whether or how to vote on that item. If you mark more than one box on an item, your vote on that item will be invalid.

## Section 4: Signing by shareholder

- 6 You must sign this form as follows in the spaces provided:



<b>Individual</b>	Where the holding is in one name, the shareholder must sign.
<b>Joint holding</b>	Where the holding is in more than one name, all of the shareholders must sign.
<b>Power of attorney</b>	To sign under power of attorney, either the power of attorney must have already been lodged with the Company's share registry for notation or the original (or a certified copy) of the power of attorney must accompany this document.
<b>Companies</b>	<p>In the following cases, subject to the Company's constitution, the following person must sign:</p> <p>(a) <b>Australian proprietary company</b> with a <b>sole director</b> who is <b>also the sole company secretary</b> – that person must sign;</p> <p>(b) <b>Australian proprietary company</b> with a <b>sole director and no company secretary</b> – that person must sign;</p> <p>(c) <b>other Australian companies</b> – two directors, or one director and one company secretary must sign; and</p> <p>(d) <b>foreign company</b> – in accordance with the laws of the jurisdiction of incorporation and constituent documents.</p>

## Corporate Representatives

- 7 If a representative of the corporation is to attend the meeting the appropriate 'Certificate of Appointment of Corporate Representative' should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's registry.

## Section 5: Lodging of proxy

- 8 This proxy form (and the original or a certified copy of any power of attorney under which it is signed) must be received by the Company not later than close of business on the date set out below, by mail or facsimile.

<b>Last time and date for lodgement</b>	10.00am on 19 December 2010
<b>By mail</b>	Level 4, 199 Moorabool Street, Geelong, Victoria 3220
<b>By facsimile</b>	(03) 5229 0100

\* Any proxy form received after that time will not be valid.

# Annexure A

## Associates of Cephalon International

Name	Jurisdiction of incorporation
Anesta AG	Switzerland
Anesta LLC	Delaware
Arana Therapeutics, Inc.	California
Biotan AG	Switzerland
Cell Therapeutics (UK) Limited	United Kingdom
Cephalon Australia Pty Ltd	Australia
Cephalon Australia (Vic) Pty Ltd	Australia
Cephalon (Bermuda) Limited	Bermuda
Cephalon Boringuen, Inc.	Puerto Rico
Cephalon B.V.	The Netherlands
Cephalon Clinical Partners, LP	Delaware
Cephalon Development Corporation	Delaware
Cephalon Europe SAS	France
Cephalon France SAS	France
Cephalon GmbH	Germany
Cephalon Holdings Limited	United Kingdom
Cephalon Investments, Inc.	Delaware
Cephalon S.r.l.	Italy
Cephalon Limited	United Kingdom
Cephalon Luxembourg S.a.r.l.	Luxembourg
Cephalon Management Company LLC	Delaware
Cephalon Management Company Lux SCS	Luxembourg
Cephalon Pharma ApS	Denmark
Cephalon Pharma (Ireland) Limited	Ireland
Cephalon Pharma, SL	Spain
Cephalon Sp.z.o.o.	Poland

Name	Jurisdiction of incorporation
Cephalon Technologies Partners, Inc.	Delaware
Cephalon Technology, Inc.	Delaware
Cephalon Titrization (FCC)	France
Cephalon (UK) Limited	United Kingdom
Cephalon Ventures Puerto Rico, Inc.	Delaware
CIMA LABS, Inc.	Delaware
East End Insurance Ltd.	Bermuda
Galenis-Promoção e Comercialização de Produtos Farmacêuticos LDA	Portugal
MEPHA GmbH	Switzerland
MEPHA-Investigação, Desenvolvimento e Fabricação Farmacêutica LDA	Portugal
Mepha (Latino-Americana) S.A.	Panama
Mepha Pharma AG	Switzerland
Mepha Pharma GmbH	Germany
Mepha Pharma India Private Limited	India
Polarx Biopharmaceuticals, Inc.	Delaware
Promics Pty Ltd	Australia
SIA Mepha Baltics	Latvia
Societe Civile Immobiliere Martigny	France

# Annexure B

Independent Expert's Report

## CHEMGENEX PHARMACEUTICALS LTD Independent Expert's Report

November 2010

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## Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in the report ('the Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

### General Financial Product Advice

The following report sets out what is described as general financial product advice. The Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using the Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

### The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO Corporate Finance (QLD) Ltd ('BDO CFQ') has been engaged to provide an independent expert's report to the shareholders of ChemGenex Pharmaceuticals Limited ('ChemGenex' or 'the Company') in relation to the potential conversion of convertible notes ('the Convertible Notes') issued and proposed to be issued to Cephalon International Holdings, Inc ('Cephalon') a subsidiary of NASDAQ-listed Cephalon, Inc at \$0.50 per ordinary ChemGenex share ('The Proposed Conversion').

The Convertible Notes provide funding of up to \$15 million and are to be issued in two tranches of \$10 million and \$5 million respectively. The first tranche of \$10 million has already been issued as at the date of this Report, while the second tranche of \$5 million is proposed to be issued in accordance with the Convertible Note Subscription Deed. Cephalon is not obliged to provide the second tranche of \$5 million until the Proposed Conversion is approved.

The scope of the Report is set out in detail in Section 4.1 of the Report. Our Report provides an opinion as to whether or not the Proposed Conversion is fair and reasonable to the shareholders of ChemGenex ('ChemGenex Shareholders').

The Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote in favour of or against the Proposed Conversion is likely to be influenced by the shareholder's particular circumstances, for example, the shareholder's taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

### Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate that our fees for the preparation of the Report will be approximately \$60,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for the Report are not contingent on the outcome of any of the matters to which the Report relates. Our fees do not include fees payable to other experts engaged to provide specialist services and reports which may have been considered in the Report.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

### Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has not provided any services to ChemGenex or Cephalon previously.

BDO CFQ is not an associate of either ChemGenex or Cephalon. The signatory to the Report does not hold any shares in either ChemGenex or Cephalon and no such shares have ever been held by the signatory.

To prepare our reports, including the Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in the Report, where applicable. Research fees are not included in the fee details provided in the Report.

### Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

#### Contact Details

#### BDO Corporate Finance (QLD) Ltd

##### Location Address:

Level 18  
300 Queen Street  
BRISBANE QLD 4000  
Phone: (07) 3237 5999  
Fax: (07) 3221 9227

##### Postal Address:

GPO Box 457  
BRISBANE QLD 4001  
Email: cf.brisbane@bdo.com.au

## Glossary

Reference	Definition
ABV	Asset Based Valuation
Act, the	Corporations Act 2001
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO CFQ	BDO Corporate Finance (QLD) Ltd
BDO Person	BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates thereof
Biotech	Biotechnology
Cephalon	Cephalon International Holdings, Inc, a subsidiary of Cephalon, Inc.
Charge, the	The fixed and floating charge held by Cephalon over the assets of ChemGenex
ChemGenex	ChemGenex Pharmaceuticals Ltd
Shareholders	The shareholders of ChemGenex
CME	Capitalisation of future Maintainable Earnings
CML	Chronic myelogenous leukemia
Company, the	ChemGenex Pharmaceuticals Ltd
Conditions Subsequent, the	ChemGenex obtaining shareholder approval under item 7 of section 611 of the Act by 31 December 2010 in order to allow Cephalon to immediately convert both the first and second tranches of notes to ChemGenex shares and no event of default as defined in the Convertible Note Subscription Deed occurring prior to such approval being obtained.
Convertible Notes, the	The \$15 million convertible note facility provided to ChemGenex by Cephalon in two separate tranches of \$10 million and \$5 million respectively and as described in the Notice of Meeting and Explanatory Memorandum.
Data Collection Milestone, the	ChemGenex must comply with a specified timeline in respect of the collection of patient data necessary to progress the planned NDA submission to the US FDA for Omacetaxine for the treatment of CML- patients who have failed two or more approved TKI. This timeline provides for the collection of patient data to be completed by 31 March 2011.
DCF	Discounted Cash Flow
Directors, the	The directors of ChemGenex
ESOP, the	Employee Share Option Plan
FSG	Financial Services Guide
GICS	Global Industry Classification Standard
Hospira	Hospira, Inc
MAA	Marketing Authorisation Application
MBV	Market Based Valuation
Merck	Merck Santé S.A.S.
NDA	New Drug Application
Notice of Meeting and Explanatory Memorandum	The Notice of Meeting and Explanatory Memorandum accompanying this Report and dated 15 November 2010.
Omacetaxine	The lead product candidate of ChemGenex.



Reference	Definition
Option Period, the	The period of time coinciding with the life of the options issued to Cephalon under the Option Transactions.
Option Transactions, the	The option agreements entered into by Cephalon with two of ChemGenex's major shareholders, Stragen and Merck, whereby Cephalon has the right to acquire up to 56,386,425 of the outstanding ChemGenex shares at \$0.70 per share at any time until 31 March 2011 or one week after the Data Collection Milestone is achieved, whichever is the later.
Proposed Conversion, the	The proposed conversion of the Convertible Notes into ordinary ChemGenex shares at \$0.50 per share as described in the Notice of Meeting and Explanatory Memorandum and announced to the market on 22 October 2010.
Report, this	This independent expert's report prepared by BDO CFQ
RG 111	ASIC Regulatory Guide 111: Contents of Expert Reports
Shareholders, the	The shareholders of ChemGenex
Stragen	Stragen International N.V.
Territory, the	The territory within Europe, the Middle East and Africa to which ChemGenex has entered into an exclusive agreement with Hospira to licence, develop and commercialise ChemGenex's product candidate Omacetaxine.
TKI	Tyrosine kinase inhibitors
US FDA	United States Food and Drug Administration
VWAP	Volume-weighted average share price

The Shareholders  
c/- The Directors  
ChemGenex Pharmaceuticals Limited  
Level 4, 199 Moorabool Street  
GEELONG VIC 3220

15 November 2010

Dear Shareholders

## Independent Expert's Report

### 1.0 Introduction

BDO Corporate Finance (QLD) Limited ('BDO CFQ') has been engaged by the directors of ChemGenex Pharmaceuticals Limited ('the Directors') to prepare an independent expert's report ('this Report') to the shareholders of ChemGenex Pharmaceuticals Limited ('ChemGenex' or 'the Company') in relation to the potential conversion of convertible notes ('the Convertible Notes') issued and proposed to be issued to Cephalon International Holdings, Inc ('Cephalon'), a subsidiary of NASDAQ-listed Cephalon, Inc. It is proposed that the Convertible Notes will convert at \$0.50 per ordinary ChemGenex share ('The Proposed Conversion'), as detailed in the Notice of Meeting and Explanatory Memorandum.

Considering its current relevant interest of 19.9% in ChemGenex, Cephalon will have a relevant interest in ChemGenex beyond 20% in the event that Cephalon converts some, or all, of the Convertible Notes. ChemGenex is seeking shareholder approval for the Proposed Conversion in accordance with item 7 of section 611 of the Corporations Act 2001 ('the Act') to allow Cephalon to potentially increase its relevant interest beyond 20%.

The Convertible Notes provide funding of up to \$15 million and are to be issued in two tranches of \$10 million and \$5 million respectively. The first tranche of \$10 million has already been issued as at the date of this Report, while the second tranche of \$5 million is proposed to be issued in accordance with the Convertible Note Subscription Deed. Cephalon is not obliged to provide the second \$5m tranche until the Proposed Conversion is approved.

A more detailed discussion of the Proposed Conversion is set out in Section 3.0 of this Report.

We understand that this Report will be provided to the shareholders of ChemGenex ('ChemGenex Shareholders') to assist them to make an informed decision on whether to vote in favour of or against the Proposed Conversion. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.



Cephalon has also entered into option agreements with two of ChemGenex's major shareholders, Stragen International N.V. ('Stragen') and Merck Santé S.A.S ('Merck'), whereby Cephalon has the right to acquire up to 56,386,425 of the outstanding ChemGenex shares at \$0.70 per share at any time until one week after the actual completion of the Data Collection Milestone on 31 March 2011, whichever is the later ('the Option Transactions'). The Option Transactions have the effect of giving Cephalon an immediate relevant interest under the Act of 19.9% in ChemGenex, notwithstanding that the options may not be exercised.

Refer to the Notice of Meeting and Explanatory Memorandum accompanying this Report for further information on the Option Transactions.

For completeness, we note specifically that we do not provide any opinion on the Option Transactions and we do not provide any opinion on the Company's decision to enter into the Convertible Note Subscription Deed. This Report only provides an opinion in relation to the Proposed Conversion.

This Report relies on financial information provided by the Company and the Directors. In accordance with the scope of our work, we have not completed a review, audit or due diligence on the information which has been provided. This Report does not contain any legal, accounting and/or taxation advice.

## 2.0 Summary of Opinion

This section of the Report is a summary of our opinion and cannot substitute for a complete reading of this Report.

We strongly recommend that ChemGenex Shareholders consult their own professional advisers, carefully read all relevant documentation provided including the Notice of Meeting and Explanatory Statement and consider their own specific circumstances before voting in favour of or against the Proposed Conversion.

### 2.1 Fairness

Our assessment of the fairness of the Proposed Conversion is set out in Section 8.0 of this Report. In summary, to assess whether the Proposed Conversion is Fair, we:

- Calculated the value of each ChemGenex share to be in the range of \$0.463 to \$0.608 on a controlling interest basis. In calculating our value per ChemGenex share we had regard to the Market Based Valuation methodology and a cross check based on price/book value multiples of comparable companies. As discussed in Section 8.4 of this Report, our assessment of fairness for the purposes of this Report is required to be completed having regard to the value of ChemGenex shares on a controlling interest basis. Our valuation of ChemGenex is set out in further detail in Appendix B of this Report;
- Adopt a conversion price of \$0.50 per ChemGenex share in accordance with the Proposed Conversion and outlined in Section 8.2 of this Report. As noted in Sections 3.2 and 8.2, the conversion price may be adjusted for certain changes in the capital structure of ChemGenex. Based on the information provided to us, ChemGenex has no current intention to change its capital structure on the basis described in the Convertible Note Subscription Deed. For the purposes of our assessment of the Proposed Conversion, we have adopted the conversion price of \$0.50 per ChemGenex share;
- Compared the value of each ChemGenex share with the conversion price under the Proposed Conversion; and
- Considered recent capital raisings of ChemGenex and comparable biotechnology companies to analyse the discount/premium generally offered by those companies on capital raising.

Our comparison of the value of each ChemGenex share with the value of the conversion price under the Proposed Conversion is set out in Table 2.1 below

Table 2.1: Comparison of the Value of the Conversion Price with the Value of Each ChemGenex Share

	Section Reference	Low Value (\$)	High Value (\$)
Value of each ChemGenex Share	B.5	0.463	0.608
Value of Conversion Price	8.2	0.500	0.500

Source: BDO CFQ Analysis

Table 2.1 shows that the value of the conversion price under the Proposed Conversion overlaps with the valuation range of each ChemGenex share. We note that the higher end of the ChemGenex share valuation range is greater than the value of the conversion price.

We have also considered other matters which in our view are relevant to our assessment of the fairness of the Proposed Conversion including:

- The control premium implied by the conversion price over our valuation of ChemGenex shares on a minority interest basis determined using a Market Based Valuation methodology is approximately 35% at the low end of the valuation range and approximately 11% at the high end of the valuation range;
- The conversion price is approximately \$0.03 per share higher than the low end of our valuation range on a controlling interest basis, however it is approximately \$0.11 per share lower than the high end of our valuation range; and
- Biotechnology companies which have not yet reached commercialisation generally offer a discount to their market trading price to complete capital raisings and many biotechnology companies complete capital raisings which are material relative to their market capitalisation. The conversion price under the Proposed Conversion does not represent a discount to the current market trading price of ChemGenex.

Details of our analysis are set out in Section 8.4 of this Report.

After considering the matters set out in this Report, it is our view that, in the absence of a superior offer, the Proposed Conversion is **Fair as at the date of this Report**.

## 2.2 Reasonableness of the Proposed Conversion

Our assessment of the reasonableness of the Proposed Conversion is set out in Section 9.0 of this Report.

We have assessed the reasonableness of the Proposed Conversion having regard to other significant factors to which ChemGenex Shareholders may give consideration prior to deciding whether to vote in favour of or against the Proposed Conversion. This includes comparing the likely advantages and disadvantages of the Proposed Conversion with the position of the ChemGenex Shareholders if the Proposed Conversion is not approved.

Table 2.2 below summarises the advantages and disadvantages of the Proposed Conversion to the ChemGenex Shareholders.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Access to required funding to progress development and meet milestones</li> <li>• Uninterrupted continuation of operations due to availability of funding</li> </ul>	<ul style="list-style-type: none"> <li>• Potential dilution of ChemGenex Shareholders due to the issue of shares to Cephalon</li> <li>• Potential for on-market sale of a significant number of the shares in the Company by Cephalon upon conversion of the Convertible Notes</li> </ul>

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Interest may not be payable on \$15 million of funding under the Convertible Notes</li> <li>• No practical measure of control by Cephalon although they may potentially obtain significant influence</li> <li>• Potential to strengthen US networks through collaboration with Cephalon</li> <li>• Reduced transaction costs when compared to a placement or rights issue</li> <li>• Potential for release of the Charge held over the Company's assets</li> </ul>	<ul style="list-style-type: none"> <li>• Potential to deter takeover bid due to the possible blocking stake that Cephalon may acquire upon conversion of the Convertible Notes</li> <li>• Price implied by the Option Transactions in the event that the options are exercised, is greater than the conversion price under the Proposed Conversion</li> </ul>

ChemGenex Shareholders should refer to Section 9.0 of this Report for a more detailed discussion of the advantages and disadvantages relating to the Proposed Conversion as well as a consideration of the position of the ChemGenex Shareholders if the Proposed Conversion does not proceed and other matters that they should have regard to prior to voting on the Proposed Conversion.

We have also considered other matters which in our view are relevant to our assessment of the reasonableness of the Proposed Conversion including:

- The ability of ChemGenex to raise funds from equity and debt markets as an alternative to the Convertible Notes;
- Cephalon may not ultimately own more than 20% of the shares in the Company; and
- Certain benefits are only realised if the Data Collection Milestone is met.

Details of our analysis are set out in Section 9.4 of this Report.

After considering the advantages and disadvantages and other considerations summarised above and set out in further detail in the balance of this Report, it is our view that in the absence of a superior proposal or any other information, the Proposed Conversion is **Reasonable as at the date of this Report**.

It is important for ChemGenex Shareholders to note that if the Proposed Conversion is not approved, the implications for ChemGenex will include the following:

- The \$10 million tranche previously drawn down by the Company will incur interest at the rate of 10% per annum compounded quarterly. In accordance with the Convertible Note Subscription Deed, if the Proposed Conversion is not approved, there will be no opportunity to reduce the interest payable on the Convertible Notes to nil;
- The second tranche funding of \$5 million may not be made available to ChemGenex on the terms agreed in the Convertible Note Subscription Deed; and
- Cephalon will be entitled to redeem the \$10 million tranche of the Convertible Notes plus any capitalised interest at their discretion.

### 2.3 Other Matters

Before forming a view on the Proposed Conversion, we strongly recommend that ChemGenex Shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them including this Report; the Notice of Meeting and Explanatory Statement and other information provided to them; and
- Consider their own specific circumstances and assess the way in which those circumstances might impact their decision to vote in favour of or against the Proposed Conversion.

The analysis set out in this Report has regard to current market values using the information available at the date of this Report. If additional information becomes available or circumstances change materially between the date of this Report and the date ChemGenex Shareholders are required to make a decision in relation to the Proposed Conversion, it may be the case that subsequent analysis gives us reason to change our opinion on the Proposed Conversion.

### 3.0 Summary of the Proposed Conversion

ChemGenex has entered into the Convertible Note Subscription Deed with Cephalon for Convertible Notes providing funding of up to \$15 million in two tranches.

As set out in Section 1.0, the Company has already entered into the Convertible Note Subscription Deed with Cephalon and the first tranche of funds has been drawn down. The Proposed Conversion and our opinion in this Report only relates to the conversion of the Convertible Notes.

Notwithstanding this, due to the interrelationships between the Proposed Conversion, the Convertible Note Subscription Deed and the Option Transactions, we have provided a description of other matters as follows:

- Section 3.1 sets out a description of the Proposed Conversion;
- Section 3.2 sets out a summary of the key terms of the Convertible Note Subscription Deed;
- Section 3.3 sets out a description of the Option Transactions;
- Section 3.4 illustrates the interrelationships between the Proposed Conversion, the Convertible Note Subscription Deed and the Option Transactions; and
- Section 3.5 sets out the Directors' rationale for the issue of the Convertible Notes and the Proposed Conversion.

### 3.1 Description of the Proposed Conversion

This section of this Report is set out as follows:

- Section 3.1.1 sets out a description of the Proposed Conversion;
- Section 3.1.2 considers the capital structure of ChemGenex in the event that the Proposed Conversion is approved and no other events of default occurs as set out in the Convertible Note Subscription Deed ('the Conditions Subsequent'); and
- Section 3.1.3 considers the scenarios under which the maximum dollar amount and number of ChemGenex shares may be issued.

#### 3.1.1 The Proposed Conversion

The Proposed Conversion relates to the potential conversion of the Convertible Notes issued, and proposed to be issued, to Cephalon at \$0.50 per ordinary ChemGenex share, as detailed in the Convertible Note Subscription Deed, the Notice of Meeting and Explanatory Memorandum.

Considering Cephalon's current relevant interest of 19.9% in ChemGenex, Cephalon will have a relevant interest in ChemGenex beyond 20% in the event that Cephalon converts some, or all, of the Convertible Notes. ChemGenex is seeking shareholder approval for the Proposed Conversion in accordance with item 7 of section 611 of the Act to allow Cephalon to increase its relevant interest in ChemGenex beyond 20%.

The Convertible Notes provide funding of up to \$15 million and are to be issued in two tranches of \$10 million and \$5 million respectively. The first tranche of \$10 million has already been issued as at the date of this Report, while the second tranche of \$5 million is proposed to be issued in accordance with the Convertible Note Subscription Deed. Cephalon is not obliged to provide the second tranche of \$5 million until the Proposed Conversion is approved.

The principal and any capitalised interest on the Convertible Notes may be converted into ordinary ChemGenex shares as follows:

- At the discretion of either ChemGenex or Cephalon, in the circumstance where the Proposed Conversion is approved, the Data Collection Milestone is met and there is no event of default as described in the Convertible Note Subscription Deed; and
- At the discretion of Cephalon only in any other circumstance (subject to compliance with the Act).

The number of shares to be issued to Cephalon (if it elects to convert the Convertible Notes into ChemGenex shares) will, among other issues, depend upon:

- Whether any interest has been capitalised in relation to the Convertible Notes; and
- Whether the conversion price offered has been adjusted to reflect any changes in the capital structure of ChemGenex as outlined in Appendix C. The Company has informed us that it currently has no intention to implement any changes to its capital structure as described in the Convertible Note Subscription Deed.

The total number of shares that Cephalon will hold in ChemGenex in aggregate will depend on whether or not it elects to exercise the options under the Option Transactions (refer to Section 3.3 of this Report).

We understand that major shareholders of ChemGenex, who in aggregate hold a total of 44.4% of ChemGenex shares, have indicated that they support and intend to vote in favour of the Proposed Conversion.

### 3.1.2 Capital Structure in the Event that the Proposed Conversion is Approved and all Conditions Subsequent are Satisfied

In the event that the Proposed Conversion is approved by ChemGenex Shareholders and all of the Conditions Subsequent (as described in Appendix C) are satisfied, the Convertible Notes will not incur interest. Further, if the Conditions Subsequent are met and the Data Collection Milestone is achieved and there is no event of default, ChemGenex will have the right to convert the \$15 million of Convertible Notes into ordinary shares in ChemGenex and have the Charge released.

Table 3.1 below sets out the capital structure of ChemGenex pre and post the Proposed Conversion being approved and all the Conditions Subsequent being satisfied.

Table 3.1: Capital Structure of ChemGenex Pre and Post the Proposed Conversion Being Approved and the Conditions Subsequent Being Satisfied

	ChemGenex Shares Issued to Cephalon	N/A	ChemGenex Shares In Which Cephalon Has An Interest	Total ChemGenex Shares on Issue	Cephalon's Percentage Ownership
As at the date of the Notice of Meeting			56,386,425	283,348,870	19.9%
After conversion of first tranche	20,000,000		76,386,425	303,348,870	25.2%
After conversion of second tranche	10,000,000		86,386,425	313,348,870	27.6%

Source: Notice of Meeting and Explanatory Memorandum

We note that Cephalon may also choose to convert the Convertible Notes if the Proposed Conversion is approved but the Conditions Subsequent are not met (subject to compliance with the Act) however this possibility is outside the control of ChemGenex.

The total number of shares that Cephalon will hold in ChemGenex in aggregate will depend on whether or not it elects to exercise the options under the Option Transactions (refer to Section 3.3 of this Report).

### 3.1.3 Maximum Value of ChemGenex Shares Which May Be Issued

Cephalon will be entitled to earn interest on the \$15 million drawn down under the Convertible Notes at 10% per annum for a period of up to 3 years<sup>1</sup> including in the following scenarios:

- In the event where the Proposed Conversion is approved by ChemGenex Shareholders, the other Conditions Subsequent are not met, and assuming Cephalon does not redeem the Convertible Notes (which they would be entitled to do); or
- In the event where the Proposed Conversion is not approved by ChemGenex Shareholders, the second tranche of \$5 million is subscribed for by Cephalon and assuming the Convertible Notes are not redeemed.

Cephalon would be entitled to capitalise the accrued interest and add it to the principal repayable by ChemGenex. Cephalon may also be entitled, at their discretion, to convert the principal and the capitalised interest, into ordinary shares in ChemGenex at \$0.50 per share. Cephalon can convert some or all of the Convertible Notes, including any capitalised interest, without shareholder approval (in the event the Proposed Conversion is not approved), provided that their relevant interest in ChemGenex at the time the Convertible Notes are converted does not exceed 20% or Cephalon relies on an exception under the Act (such as the 3% in 6-months 'creep' exception) to exceed the 20% threshold.

Table 3.2 outlines the calculation of the maximum dollar amount of ChemGenex shares that may be issued to Cephalon under the Convertible Note Subscription Deed. It also calculates the maximum number of ChemGenex shares that may be issued to Cephalon assuming a conversion price of \$0.50 per share.

<sup>1</sup> The Convertible Notes are repayable 3 years after the date of issue of the first tranche of \$10 million (refer to the summary of the Convertible Note Subscription Deed in Appendix C of this Report).

**Table 3.2: Calculation of the Maximum Dollar Amount and Number of ChemGenex Shares that May be Issued to Cephalon Assuming a Conversion Price of \$0.50**

Value of the Convertible Notes prior to interest being capitalised	\$15,000,000
Interest rate per annum	10%
Capitalised interest after 3 years @ 10% per annum compounded quarterly <sup>(a)</sup>	\$5,173,332
<b>Value of the Convertible Notes after 3 years of interest being capitalised</b>	<b>\$20,173,332</b>
Conversion price assumed	\$0.50
<b>Maximum number of shares capable of being issued</b>	<b>40,346,664</b>

Source: BDO CFQ Analysis

(a) Capitalised interest of \$5,173,332 is calculated as  $[\$15,000,000 \times (1.025)^{12 \text{ quarters}}] - \$15,000,000$

Table 3.2 shows that in the above scenarios, the maximum number of ChemGenex shares that will be issued to Cephalon is 40,346,664 shares, assuming a conversion price of \$0.50 per share. This equates to an interest in 12.5% of ChemGenex shares, assuming Cephalon no longer has an interest in the options issued to them under the Option Transactions.

As outlined in section 3.2 below, the conversion price may be adjusted if the capital structure of ChemGenex changes as described in the Convertible Note Subscription Deed, which may impact the number of ChemGenex shares issued.

### 3.2 Description of the Convertible Notes

The first \$10 million tranche of the Convertible Notes was issued on 26 October 2010 in accordance with the Convertible Note Subscription Deed. The second tranche of \$5 million can be issued upon approval of the Proposed Conversion in accordance with the terms of the Convertible Note Subscription Deed.

The key terms of the Convertible Note Subscription Deed include the following:<sup>2</sup>

- The Convertible Notes may be converted into ordinary shares in ChemGenex in accordance with the Convertible Note Subscription Deed at a conversion price of \$0.50 per share (or adjusted in accordance with clause 8 of the Convertible Note Subscription Deed);
- The Convertible Notes are repayable 3 years after the date of issue of the first tranche of \$10 million, being 26 October 2012;
- Cephalon will hold the Charge over the assets of ChemGenex as security for the performance of ChemGenex's obligations under the Convertible Notes;
- Other than the circumstances in which interest will not be charged (as set out in the point directly below), the Convertible Notes will accrue interest at 10% per annum;
- If the Proposed Conversion is approved by ChemGenex Shareholders by 31 December 2010 and no event of default as described in the Convertible Note Subscription Deed occurs by the date of the approval, no interest will be payable on the Convertible Notes;

<sup>2</sup> ChemGenex Shareholders are also advised to refer to the Notice of General Meeting and Explanatory Memorandum for further information.

- If the Company successfully completes the Data Collection Milestone by 31 March 2011 and there is no event of default, the Charge will be released;
- Cephalon's obligation to subscribe for the second tranche of the Convertible Notes is conditional upon the approval of ChemGenex Shareholders and no other events of default occurring as set out in the Convertible Note Subscription Deed;
- If the Proposed Conversion is not approved by ChemGenex Shareholders by 31 December 2010 or the Conditions Subsequent are not all met, Cephalon may redeem the first \$10 million tranche of Convertible Notes; and
- Cephalon will be entitled to redeem the Convertible Notes at its discretion if the Data Collection Milestone is not achieved (if there is an event of default).

Refer to Appendix C for further information on the key terms of the Convertible Note Subscription Deed and the Charge.

### 3.3 The Option Transactions

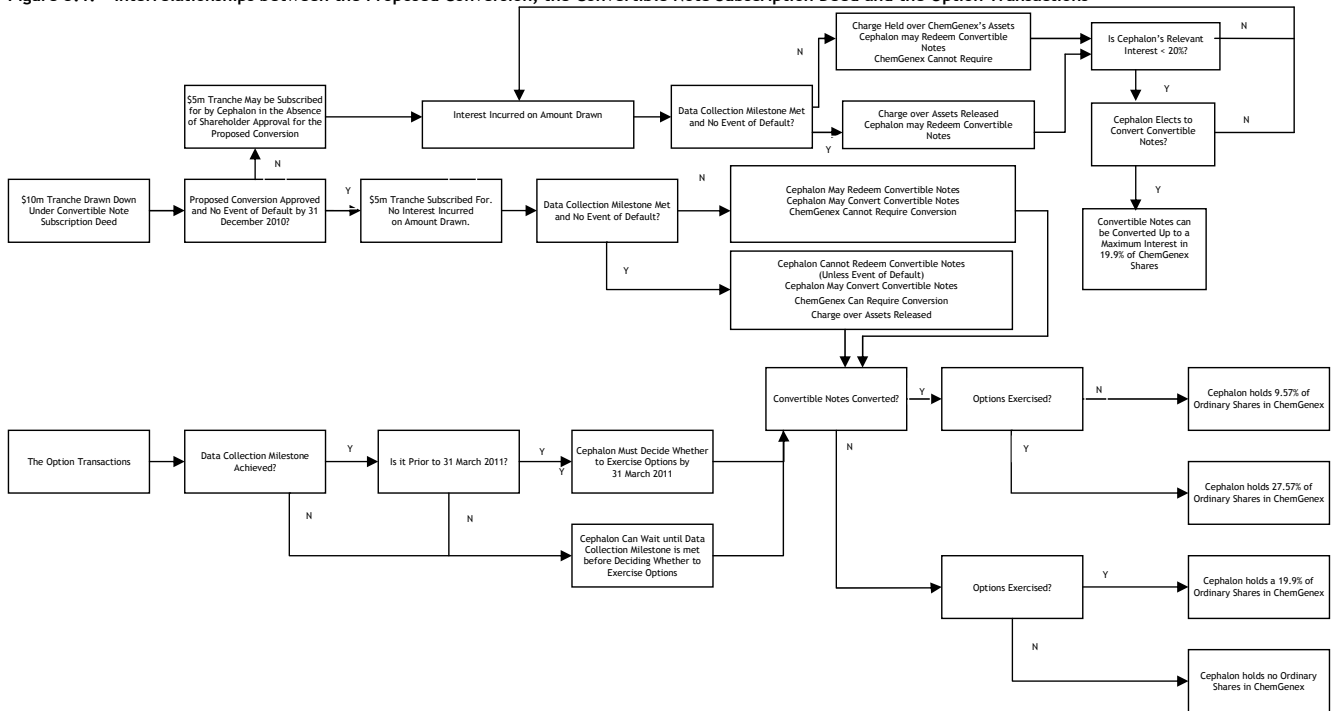
Cephalon entered into option agreements with two of ChemGenex's major shareholders, Stragen and Merck, on 22 October 2010. These transactions are referred to as the Option Transactions in this Report. ChemGenex is not a party to the Option Transactions.

In relation to the Option Transactions, we note the following:

- Under the Option Transactions, Cephalon has the right to acquire up to 56,386,425 of the outstanding shares in ChemGenex from Stragen and Merck collectively at an exercise price of \$0.70 per share. The Option Transactions have the effect of giving Cephalon an immediate relevant interest under the Act of 19.9% in ChemGenex, notwithstanding the fact that the options issued to Cephalon under the Option Transactions may not be exercised;
- The options are exercisable by Cephalon at any time before the later of 31 March 2011 and one week after the actual completion of the Data Collection Milestone ('the Option Period'). Where a takeover offer for ChemGenex is made by any person during the exercise period at a premium to the exercise price and is unanimously recommended by the Directors (subject only to a 'superior offer' qualification), Cephalon will have a five business day period to exercise the options or they will lapse;
- As at the date of this Report, we are informed that Cephalon has not indicated any present intention to exercise the options issued to them under the Option Transactions prior to the Data Collection Milestone; and
- Stragen and Merck received no fee or other consideration from Cephalon for the granting of the options under the Option Transactions, other than an undertaking to pay an option fee of \$10 to each of them.

We provide no opinion on the Option Transactions in this Report.

Figure 3.1: Interrelationships between the Proposed Conversion, the Convertible Note Subscription Deed and the Option Transactions



Source: Convertible Note Subscription Deed, Fixed and Floating Charge Deed, Option Agreements and BDO CFQ Analysis

### 3.4 Interrelationship between the Proposed Conversion, the Convertible Note Subscription Deed and the Option Transactions

As previously mentioned, the Proposed Conversion relates only to the conversion of the Convertible Notes to enable Cephalon to increase its relevant interest in ChemGenex beyond 20%. However, there are a number of interrelationships between the Proposed Conversion, the Convertible Note Subscription Deed and the Option Transactions.

Figure 3.1 illustrates the interrelationships described above. With reference to Figure 3.1, we note the following:

- ChemGenex Shareholders are being requested to consider only the conversion of the Convertible Notes into ordinary shares in ChemGenex;
- The interrelationships, as illustrated, show that there are a range of possible outcomes which could eventuate and which are outside of the control of ChemGenex Shareholders; and
- The approval of the Proposed Conversion enables ChemGenex to meet one of the Conditions Subsequent. The Option Transactions and the exercise of any options are not dependent upon the Proposed Conversion. Approval of the Proposed Conversion on its own will not determine the ultimate outcome of all transactions mentioned above.

### 3.5 Directors' Rationale for the Issue of the Convertible Notes and the Proposed Conversion

The Directors have stated that their rationale for the issue of the Convertible Notes and the Proposed Conversion includes the following:

- The Proposed Conversion is part of an overall investment transaction with Cephalon which has provided the Company with access to significant funding for the Company's operations, including for progressing the essential work involved in the collection of patient data contemplated by the Data Collection Milestone;
- The terms of the Convertible Notes are commercially advantageous for the Company because:
  - the conversion price of the Convertible Notes of \$0.50 per share represents a 13% premium to the volume weighted average price of the shares for the one month period to 15 October 2010, in circumstances where raising equity capital from alternative sources would usually necessitate shares or other securities to be offered at a discount; and
  - the interest rate of 10% per annum (or no interest if the Proposed Conversion is approved and the Conditions Subsequent are met) is more favourable than the Company could reasonably expect to obtain from other financiers for any similar or comparable facility.

Assuming that the Data Collection Milestone and all of the Conditions Subsequent have been met and there is no event of default, the Proposed Conversion will:

- give the Company the right to convert the Convertible Notes issued to Cephalon into equity; and
- enable the release of the Charge.

Refer to the Notice of Meeting and Explanatory Memorandum for further information on the Directors' strategic rationale for the issue of the Convertible Notes and the Proposed Conversion.

## 4.0 Scope of Report and Methodology for Assessment

### 4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet requirements set out in the Act, the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the relevant exchanges. These requirements have been set out in Sections 4.1.1 and 4.1.2 below.

The purpose of this Report is to express BDO CFQ's opinion as to whether the Proposed Conversion is 'fair and reasonable' to ChemGenex Shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting and Explanatory Statement to be sent to ChemGenex Shareholders by the Company.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of individual ChemGenex Shareholders. Before acting in relation to their investment, individual ChemGenex Shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs (including their own taxation consequences). ChemGenex Shareholders should read in full the Notice of Meeting and Explanatory Statement issued by ChemGenex in relation to the Proposed Conversion.

Voting in favour of or against the Proposed Conversion is a matter for individual ChemGenex Shareholders based on their expectations as to value and future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. ChemGenex Shareholders who are in doubt as to the action they should take in relation to the Proposed Conversion should consult their own professional adviser.

### 4.1.1 Requirements of the Act

Under item 7 of section 611 of the Act, share acquisitions which result in the holder owning a relevant interest of greater than 20% must be approved by the shareholders of the company. The Act requires that the company should provide shareholders with all material information they require in order to decide how to vote on a transaction requiring approval under item 7 of section 611 of the Act and should commission an expert's report (or, if it has the expertise, a directors' report to the same standard) in order to discharge this obligation.

### 4.1.2 Listing Requirements

This Report has not been prepared specifically for the purpose of complying with any requirements of the Australian Securities Exchange ('the ASX').

### 4.2 Assessment Methodology

The Act does not define the method by which an expert is required to determine whether or not a transaction is 'fair and reasonable'. Although there is no specific guidance in relation to the principles and content of an expert's report, ASIC are of the view that the report should follow the requirements of other expert reports under the Act.

In accordance with ASIC Regulatory Guide 111 ('RG 111') *Contents of Experts Reports*, shareholders should be informed of the particulars of how a proposal was examined and evaluated as well as the results of the examination and evaluation.

In determining whether the Proposed Conversion is 'fair and reasonable', the steps set out in the following sections of this Report are required to be completed.

#### 4.2.1 Step 1

Under RG 111, the Proposed Conversion will be considered 'fair' to ChemGenex Shareholders if the conversion price to be received by ChemGenex under the Proposed Conversion is equal to or greater than the fair market value of the ChemGenex shares to be issued to Cephalon upon conversion.

To assess the fairness of the Proposed Conversion, we have:

- Considered our value per ChemGenex share on a controlling interest basis;
- Compared our value per ChemGenex share on a controlling interest basis with the conversion price;
- Considered other capital raisings involving large parcels of shares of ChemGenex and other broadly comparable companies; and
- Determined whether or not the Proposed Conversion is Fair.

Our work will be completed using publicly available information and other information provided to us by the Directors.

#### 4.2.2 Step 2

Examine other significant factors to which ChemGenex Shareholders may give consideration prior to deciding whether to approve the Proposed Conversion. This includes comparing the likely advantages and disadvantages of approving the Proposed Conversion, with the position of ChemGenex Shareholders if the Proposed Conversion is not approved. This step can be classified as an assessment of whether the Proposed Conversion is 'reasonable'.

#### 4.2.3 Step 3

Upon completion of steps 1 and 2, it may be possible to conclude that the Proposed Conversion is 'reasonable' if there are valid reasons for its approval, notwithstanding that the Proposed Conversion may not be regarded as 'fair' to ChemGenex Shareholders. Generally speaking, an offer is 'reasonable' if it is 'fair'.

It may also be 'reasonable', despite not being 'fair', if after considering other significant factors the interests of ChemGenex Shareholders are reasonably balanced.

While all issues need to be considered before drawing an overall conclusion, we will assess the fairness and reasonableness issues separately for clarity.

We have not provided any advice, accounting, taxation, legal or otherwise in relation to the Proposed Conversion. Other advisers have provided advice to ChemGenex in relation to those matters.

In the process of making an assessment of the Proposed Conversion, we have made some assumptions. Where these assumptions are material to our work, we have stated them in this Report.



## 5.0 The Biotechnology Industry

Section 5.0 provides a brief overview of the biotechnology industry. This summary is not intended to be a comprehensive analysis of the biotechnology industry. The information presented in this section has been compiled from a range of publicly available sources.

We have not commissioned the reports referred to in this section and have not independently verified any of the information. We recommend that ChemGenex Shareholders refer to the original source of the information listed in this section, and any other information they believe appropriate, for a more comprehensive analysis. This section should be referred to as a broad guide only.

### 5.1 Overview of ChemGenex's Industry

#### 5.1.1 Global Industry Classification Standards

The 'Health Care' sector as defined under the Global Industry Classification Standard ('GICS'), can be divided into a number of sub-categories as set out in Table 5.1 below. We have used these GICS definitions, terminology and classifications in the analysis set out in this Report when discussing the biotechnology industry.

Table 5.1: GICS Classifications of the Health Care Sector

Industry Group	Industry	Sub-Industry
• Health Care, Equipment and Services	• Health Care Equipment and Supplies	• Health Care Equipment • Health Care Supplies
	• Health Care Providers and Services	• Health Care Distributors • Health Care Services • Health Care Facilities • Managed Health Care
• Pharmaceuticals, Biotechnology and Life Sciences	• Healthcare Technology	• Health Care Technology
	• Life Sciences Tools and Services	• Life Sciences Tools and Services
	• Biotechnology	• Biotechnology
	• Pharmaceuticals	• Pharmaceuticals

Source: Bloomberg

Based on ChemGenex's current range of activities, the Company is classified as a biotechnology company. For completeness however, we note that in the future ChemGenex may also be considered to operate in the pharmaceutical industry, particularly once Omacetaxine, the Company's flagship product candidate, is approved, manufactured and distributed for retail sale in large quantities.

#### 5.1.2 The Biotechnology Industry

Biotechnology is the application of science and technology to living organisms as well as parts, products and models thereof, to alter living or non-living materials for the production of knowledge and biotechnology products and services.

The primary activities of the biotechnology industry include:

- DNA coding;

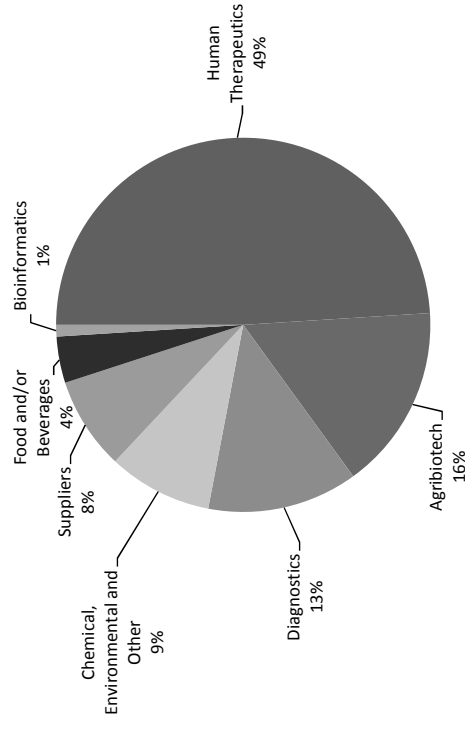
- Cell and tissue culture engineering;
- Process biotechnologies; and
- Sub-cellular organisms.

The major products and services in this industry are:

- Human therapeutics;
- Agribiotech;
- Diagnostics;
- Chemical, environmental and other;
- Suppliers;
- Food and/or beverages; and
- Bioinformatics.

The market segmentation of the major products and services in the biotechnology industry is shown in Figure 5.1 below.

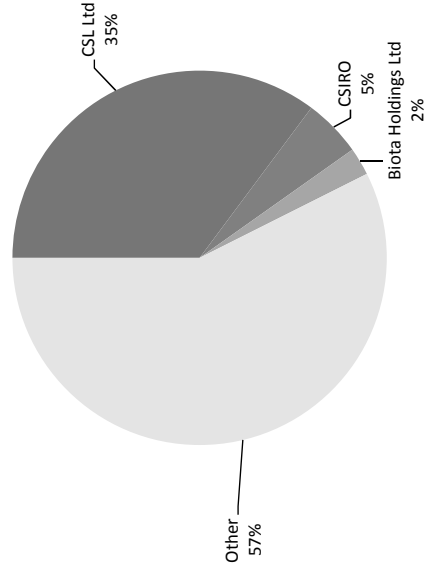
Figure 5.1: Market Segmentation of the Biotechnology Industry



Source: IBIS World Industry Report - Biotechnology in Australia (December 2009)

The major players in the Australian biotechnology industry are shown in Figure 5.2 below.

Figure 5.2: Major Players in the Australian Biotechnology Industry



Source: IBIS World Industry Report - Biotechnology in Australia (December 2009)

### 5.1.3 Demand Determinants

The demand determinants for the biotechnology industry can be discussed in two ways:

1. Factors that encourage companies to undertake biotechnology research and development:
  - a. The expected gross return from undertaking the research and development;
  - b. The ease with which technology can be patented and protected;
  - c. The social benefits expected to result from the research and development; and
  - d. The availability of appropriate labour skills, materials and processes;
2. Factors that drive third-party demand (from the public sector and private consumers) for the products created following biotechnology research:
  - a. The increasing age of the population, which increases the incidence of age-related illnesses such as various cancers, Alzheimer's disease, heart disease and diabetes;
  - b. The financial strength of the retiring baby boomer generation, which increases the demand for ameliorative treatments, curative treatments and preventative treatments developed by biotechnology techniques; and
  - c. The growing acceptance of, and support for, biotechnology in society.

### 5.1.4 Key Factors

Key sensitivities that affect the performance of the biotechnology industry are set out in Table 5.2.

Table 5.2: Key Sensitivities for the Biotechnology Sector

Key Sensitivity	Description
Age Group (55+)	An ageing population creates demand for more life enhancing and life extending drugs that are developed by the biotechnology industry.
Real GDP Growth	The biotechnology industry is extremely reliant on sound investor confidence, which is bolstered by a strong economy. High levels of confidence increase the availability of speculative capital used to fund start ups and more established companies.
Research and Development Expenditure	The level of government grants and funding provided to biotech companies can have a significant impact on the growth of the industry.
Stock Market Performance	A healthy stock market assists biotechnology companies in raising capital.

Source: IBIS World Report - Biotechnology in Australia (December 2009)

Key success factors that affect the performance of the biotechnology industry are set out in Table 5.3.

Table 5.3: Key Success Factors for the Biotechnology Industry

Key Sensitivity	Description
Access to Niche Markets	Biotechnology companies need to develop products for niche markets.
Ability to Quickly Adopt New Technology	Companies in the biotechnology industry need to ensure they are up to date with the latest research and breakthroughs.
High Trained Workforce	Employees involved in industry research and development generally need to hold a science degree or equivalent.
Ready Access to Investment Funding	The high cost of developing new biotechnology products means that companies need to secure finance in order to ensure successful research and development.

Source: IBIS World Report - Biotechnology in Australia (December 2009)

### 5.2 Investment in the Biotechnology Industry

Biotechnology ('Biotech') companies are often 'spin-offs' from research being undertaken in high education, public and not-for-profit research organisations. Biotech expenditure, which is principally research and development expenditure, is typically funded by receipts from capital raisings and from interest income earned on cash balances. This funding is largely provided by government and non-profit organisations, although the private sector is increasing its contribution. Investment in the Biotech sector is often regarded as speculative for the following reasons:

- The share price volatility of Biotech companies tends to be higher than the share price volatility of companies in many other sectors, because the share price of Biotech companies can be heavily dependent on announcements made relating to the progress of a Biotech company's technology; and
- Value can be created or lost over much shorter periods of time as product development milestones are either met or missed respectively.

The probability of a product becoming commercially successful increases as it moves through its development lifecycle and successfully meets milestones that have been set. A number of research analysts and market participants in the Biotech sector have attempted to estimate the probability that a product will be successfully commercialised based on its current stage in the development lifecycle.

Figure 5.3 below sets out one analyst's view of the indicative chances of success of Biotech products at various stages of development.

Figure 5.3: Indicative Chance of Success throughout the Biotech Lifecycle



Source: eG Capital

Early stage Biotech companies (i.e. Phase II trials or earlier) do not typically generate any substantial operating revenue streams from their products, which are still being developed and are yet to be commercialised, resulting in low sales and a high cash burn rate.

It is often difficult for Biotech companies that are in the pre-commercialisation stage to attract the capital that they require, unless they demonstrate that they can consistently meet major milestones.

As a result of this, it is common for research analysts and market participants to compare and value early stage Biotech stocks having regard to the successful completion of key milestones (e.g. completion of Phase I trials as scheduled) on a recurring basis and by having regard to expected future performance of each company. The level of cash holdings and the company's cash burn rate also assist market participants to evaluate companies. Biotech companies achieving sales may also be compared on ratios including share price to sales revenue and price to earnings ratios.

The US is recognised as the largest and most important pharmaceutical and biotechnology market in the world, with the most developed capital market for Biotech stocks. Our research suggests that while the number of listed Biotech companies in the US and Europe is similar, the US companies produce twice the revenue, employ twice the number of staff, invest three times as much in research and development, carry approximately ten times the amount of debt, and obtain twice the amount of venture capital funding.

## 6.0 Background of ChemGenex<sup>3</sup>

Section 6.1 is set out as follows:

- Section 6.1 provides an overview of ChemGenex;
- Section 6.2 describes the equity structure of ChemGenex;
- Section 6.3 describes the share market performance of ChemGenex; and
- Section 6.4 summarises the historical financial information of ChemGenex.

### 6.1 Overview of ChemGenex

#### 6.1.1 Company Description

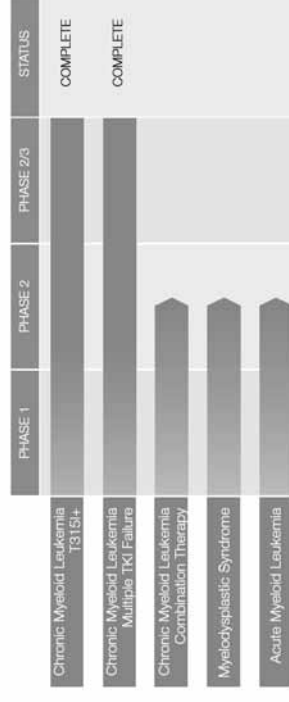
ChemGenex is listed on the ASX (Code: CXS) and its securities also trade in the US under a Level 1 American Depository Receipt Program (Code: CXSPY). ChemGenex was previously listed on the NASDAQ, however, it voluntarily withdrew its listing in 2009 to reduce the level of compliance obligations and costs.

ChemGenex is a haematology focused biopharmaceutical company engaged in the development of small molecules with new mechanisms of action to treat malignancies with significant unmet medical needs that specialises in the discovery and development of oncology drugs.

The Company is developing its lead product candidate Omacetaxine for the treatment of patients with chronic myeloid leukemia ('CML'), acute myeloid leukemia and myelodysplastic syndrome.

Currently, ChemGenex has an NDA under review by the US FDA and a Marketing Authorisation Application ('MAA') under review by the European Medicines Agency for CML patients who have failed Imatinib and have the Bcr-Abl T315I mutation. An additional NDA, for Omacetaxine in CML patients who have failed multiple approved tyrosine kinase inhibitors ('TKIs') is in preparation for submission to the FDA. ChemGenex's product pipeline is illustrated in Figure 6.1 below.

Figure 6.1: Additional Therapies Introduced by Omacetaxine for the Treatment of CML



Source: ChemGenex Annual Financial Report for the Year Ended 30 June 2010

<sup>3</sup> Information in this section is sourced from the announcements and financial reports of ChemGenex, information available on the Company's website and other information provided to us by the Directors.

ChemGenex intends to commercialise Omacetaxine itself in the USA and has established a corporate alliance with Hospira, Inc ('Hospira') to develop and commercialise Omacetaxine in Europe, the Middle East and parts of Africa (refer to Table 6.5 for further details). The Company is seeking to establish similar commercial partnerships throughout the rest of the world.

### 6.1.2 The CML Market and Current Treatment Options

Approximately 5,000 people are diagnosed with CML in the US each year. Over 200,000 patients worldwide have been diagnosed with the disease, a number that is continuing to increase.

Currently, there are 2 main lines of therapies that are used in the treatment of CML:

- The 'First Line Therapy' involves the use of Imatinib, a targeted TKI; and
- The 'Second Line Therapy' involves the use of either the Dasatinib drug or the Nilotinib drug.

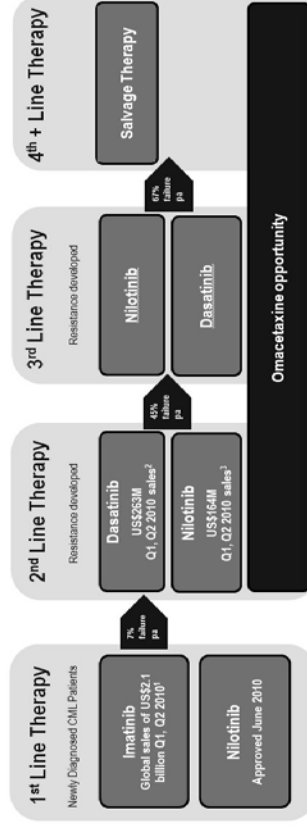
The current treatment options often result in failure. According to one study, 37% of Imatinib treated patients who had 5 years of therapy did not achieve a successful outcome. The most frequent reason for this failure is mutation. Approximately 44% of Imatinib failures have mutations, with the Bcr-Abl T315I mutation being the most frequent (15% to 20%).

The Company notes that its lead product candidate, Omacetaxine, has a unique mechanism of action that works differently from other TKIs and addresses unmet medical needs in CML treatment. Specifically, Omacetaxine is expected to assist CML patients who have failed:

- Imatinib and have the Bcr-Abl T315I mutation; or
- Multiple approved TKIs.

Omacetaxine essentially introduces an additional 'Second Line Therapy' as well as a 'Third Line Therapy' for the treatment of CML. This is illustrated in Figure 6.2 below.

Figure 6.2: Additional Therapies Introduced by Omacetaxine for the Treatment of CML



Source: ChemGenex Presentation - November 2010

## 6.2 Equity Structure of ChemGenex

This section sets out the current equity structure of ChemGenex.

### 6.2.1 Equity Currently on Issue

ChemGenex has 283,348,870 ordinary shares on issue as at the date of this Report. The top 10 ChemGenex Shareholders as at 29 October 2010 are set out in Table 6.1 below.

Table 6.1: Top 10 ChemGenex Shareholders as at 29 October 2010

Shareholder	Number of Shares	Percentage of Total Shares
1 Berne No. 132 Nominees Pty Ltd <473711 A/C>	42,672,641	15.1%
2 JP Morgan Nominees Australia Limited <Cash Income A/C>	39,819,453	14.1%
3 Merck Sante	24,057,922	8.5%
4 GBS Venture Partners Ltd <GBS Bioventures III A/C>	21,942,255	7.7%
5 Citicorp Nominees Pty Limited	17,585,699	6.2%
6 HSBC Custody Nominees (Australia) Limited	17,460,998	6.2%
7 JP Morgan Nominees Australia Limited	16,445,727	5.8%
8 National Nominees Limited	15,931,192	5.6%
9 Queensland Investment Corporation	4,881,951	1.7%
10 Toibb Investment LLC	4,436,780	1.6%
Other Other Shareholders	78,114,252	27.6%
<b>Total</b>	<b>283,348,870</b>	<b>100.0%</b>

Source: ChemGenex Shareholders Register as at 29 October 2010

### 6.2.2 Quoted Options Currently on Issue

ChemGenex has 10,949,328 quoted options on issue. Quoted share options currently issued and outstanding as at the date of this Report are shown in Table 6.2 below together with their associated exercise prices.

Table 6.2: Quoted Share Options Issued and Outstanding at the Date of this Report

Expiry Date	Exercise Price (\$)	Number of Options
8 February 2012	0.68	10,949,328

Source: ChemGenex Appendix 3B Statements

The quoted options are thinly traded and at 5 November 2010 had a closing price of \$0.18 each. Based on the share price of ChemGenex at 5 November 2010 of \$0.50, none of the above options are considered to be 'in the money'.

### 6.2.3 Unlisted Options Currently on Issue

ChemGenex has established an Employee Share Option Plan ('the ESOP'), under which ChemGenex may, at the discretion of management, grant options over the ordinary shares of ChemGenex to the Directors, executives and certain contractors who provide consulting services to ChemGenex. The ESOP is designed to align participants' interests with those of ChemGenex Shareholders by increasing the value of the Company's shares.

The options, issued for nil consideration, are granted in accordance with performance guidelines established by the Directors, who retain the final discretion on the issue of the options. The options cannot be transferred and are not quoted on the ASX.

ChemGenex currently has 18,458,500 unlisted options on issue with a range of exercise prices and expiry dates as at the date of this Report. Details on these unlisted options are set out in Table 6.3 below.

**Table 6.3: Listed Share Options Issued and Outstanding at the Date of this Report**

Expiry Date	Exercise Price (\$)	Number of Options
26/11/12	0.340	150,000
26/11/12	0.380	300,000
26/11/12	0.560	90,000
26/11/12	0.880	2,262,500
27/11/12	1.150	600,000
30/11/12	0.820	100,000
30/11/12	0.910	500,000
30/11/12	1.040	600,000
30/11/12	1.090	500,000
30/11/12	1.110	2,100,000
26/3/13	1.220	1,850,000
29/11/13	1.150	250,000
30/11/13	0.430	3,005,000
30/11/13	0.585	2,376,000
30/11/13	0.830	300,000
22/1/14	0.960	68,750
25/1/14	0.940	150,000
25/1/14	0.980	200,000
25/1/14	0.990	136,250
30/11/14	0.430	2,180,000
30/11/14	0.780	600,000
31/5/15	0.305	100,000
31/5/15	0.320	40,000
<b>Total</b>	<b>0.480</b>	<b>18,458,500</b>

Source: ChemGenex ESOP Register

Based on the current share price of ChemGenex as at 5 November 2010 of \$0.50, approximately 5,775,000 or 31.3% of the above options may be considered to be 'in the money'. However, we note that the options may be subject to a number of other unmet vesting conditions and that the market is aware of these options.

#### 6.2.4 Recent Equity Issues

ChemGenex has completed several recent equity issues since 1 July 2009. Details of those equity issues are set out in Table 6.4 below.

**Table 6.4: ChemGenex Equity Issues since 1 July 2009**

Date	Number of Shares Issued	Issue Price	Capital Raised	Description
29/3/10	75,000	0.36	27,000	Conversion of unlisted ESOP options
29/3/10	25,000	0.49	12,250	Conversion of unlisted ESOP options
15/3/10	2,723	1.18	3,213	Conversion of listed options
4/3/10	1,800	1.18	2,124	Conversion of listed options
20/1/10	125,000	0.79	98,750	Conversion of unlisted ESOP options
20/1/10	150,000	0.34	51,000	Conversion of unlisted ESOP options
6/1/10	334	0.68	227	Conversion of listed options
30/11/09	456	0.68	310	Conversion of listed options
2/11/09	6	0.68	4	Conversion of listed options
22/10/09	250,000	0.41	102,500	Conversion of unlisted ESOP options
10/8/09	300,000	0.4955 <sup>(a)</sup>	148,650	Conversion of unlisted ESOP options
7/7/09	12	0.68	8	Conversion of listed options
7/7/09	324	1.18	382	Conversion of listed options
<b>Total</b>	<b>930,655</b>		<b>446,419</b>	

Source: ChemGenex Appendix 3B Statements

(a) Involved the conversion of unlisted ESOP options with a range of exercise prices. The exercise price shown is the average exercise price.

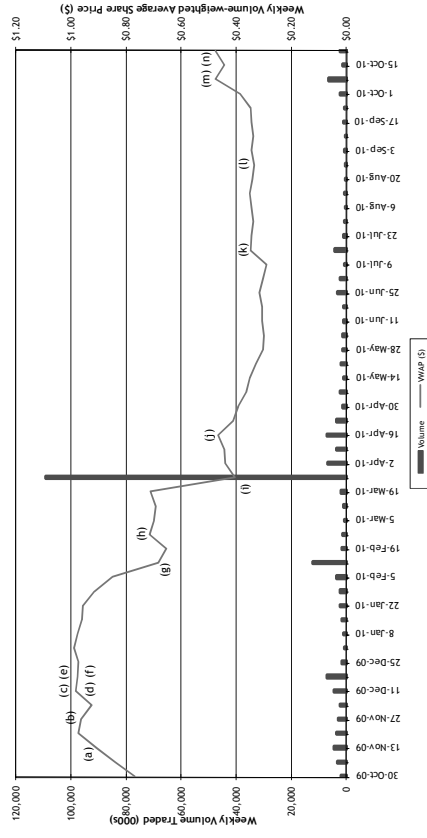
As at the date of this Report, ChemGenex had 283,348,870 ordinary shares on issue and the above equity issues represent less than 1% of the ordinary shares on issue. The above issues were collectively carried out at an average issue price of \$0.48 per share.

### 6.3 Recent Share Market Performance of ChemGenex

#### 6.3.1 Share Price

ChemGenex's ordinary shares are listed on the ASX. Figure 6.3 below shows the weekly volume-weighted average share price ('VWAP') of ChemGenex shares and the volume of shares traded each week over the period from 23 October 2009 to 22 October 2010 inclusive.

Figure 6.3: Weekly VWAP and Volume Traded for ChemGenex from 23 October 2009 to 22 October 2010



Source: Bloomberg

Over the period graphed in Figure 6.3, the ChemGenex weekly VWAP shows a period low of \$0.2912 for the week ended 9 July 2010 and a period high of \$0.9898 for the week ended 1 January 2010.

In addition to the share price and trading data, we have also provided information in this Report to assist readers to understand possible reasons for movements in ChemGenex's share price and volume of shares traded over the time period analysed. The references in Figure 6.3 above correspond to the references in Table 6.5 below.

Table 6.5: Summary of ChemGenex Announcements over the Period 23 October 2009 to 22 October 2010

Date	Announcement
(a) 10/11/09	ChemGenex announces that the US FDA has accepted the Company's NDA for Omacetaxine for the treatment of patients with CML who have failed treatment with Imatinib and who have developed the Bcr-Abl T3151 mutation.
(b) 27/11/09	ChemGenex also announces that the NDA has been granted Priority Review by the US FDA. A Priority Review designation is given to drugs that offer major advances in treatment or provide a treatment where no adequate therapy exists, and generally denotes that the US FDA review period is reduced to approximately 6 months. ChemGenex announces that European Medicines Agency has determined that the MAA for Omacetaxine for the treatment of CML patients who have failed treatment with Imatinib and who have developed the Bcr-Abl T3151 mutation is valid. Validation of the MAA indicates that ChemGenex's application is complete and that the review process has begun.
(c) 7/12/09	ChemGenex announces the existence of updated clinical data showing that Omacetaxine produced durable hematologic and cytogenetic responses in CML patients who have failed treatment with Imatinib and who have developed the Bcr-Abl T3151 mutation.
(d) 9/12/09	ChemGenex announces the existence of updated clinical data showing that Omacetaxine produced durable hematologic and cytogenetic responses in CML patients who are resistant or intolerant to two or more approved TKIs.

Date	Announcement
(e) 14/12/09	ChemGenex announces that it has entered into an exclusive agreement with Hospira to licence and commercialise ChemGenex's product candidate Omacetaxine in Europe, the Middle East and parts of Africa ('the Territory').  Under the terms of the agreement, Hospira will make an initial payment of €11.1 million, with the potential for up to an additional €74.1 million in performance milestone payments based on the successful development and commercialisation of Omacetaxine. In addition, following successful commercialisation, Hospira will pay ChemGenex a royalty on product sales in the Territory.
(f) 17/12/09	ChemGenex announces that the US FDA has notified the Company that the Oncologic Drugs Advisory Committee will conduct a public advisory meeting on 10 February 2010 to review the Company's NDA for Omacetaxine for injection.
(g) 9/2/10	ChemGenex announces that the US FDAs Oncologic Drugs Advisory Committee meeting scheduled for 10 February 2010 has been postponed due to extreme weather conditions in Washington DC.
(h) 25/2/10	ChemGenex releases its half yearly report and accounts.
(i) 23/3/10	ChemGenex announces that the US FDAs Oncologic Drugs Advisory Committee voted 7 to 1 that a validated test to identify the T3151 mutation should be reviewed by the US FDA prior to approval of Omacetaxine.
(j) 12/4/10	ChemGenex announces that the US FDA's Office of Oncology Drug Products has issued a complete response letter regarding the NDA for Omacetaxine. The complete response letter does not contain a request for a new study, nor is there a request for enrolment of additional patients into the pivotal study on Omacetaxine.
(k) 14/7/10	ChemGenex announces that it has agreed a potential path to progress Omacetaxine with the US FDA. Based on the discussion with the US FDA, ChemGenex intends to combine data from its two pivotal studies, Study 202 and Study 203, and submit an NDA for Omacetaxine. The Company also announces that it has been invited by the US FDA to discuss this approach in a pre-NDA meeting.
(l) 27/8/10	ChemGenex releases preliminary financial report for the year ended 30 June 2010.
(m) 5/10/10	ChemGenex announces that it has completed a pre-NDA meeting with the US FDA concerning the regulatory path to progress Omacetaxine. At the meeting, the US FDA agreed that the proposed NDA for Omacetaxine could be submitted based on combined data from ChemGenex's two pivotal studies, Study 202 and Study 203.
(n) 22/10/10	It was also agreed that no further clinical trials were required to complete the NDA submission, however further data will need to be collected from participating clinical centres. ChemGenex announces that, based on the timing required for collection of this additional data, it expects the NDA for Omacetaxine to be submitted in the second half of 2011.  ChemGenex announces that it has entered into the Convertible Note Subscription Deed with Cephalon under which Cephalon has agreed to subscribe for up to \$15 million of Convertible Notes convertible at \$0.50 per ChemGenex share.  ChemGenex also announces that Cephalon has entered into the Option Transactions with two of ChemGenex's major shareholders, Stragen and Merck, under which Cephalon has the right to acquire up to 56,386,425 of the outstanding shares in ChemGenex from Stragen and Merck collectively at an exercise price of \$0.70 per ChemGenex share.

Source: ChemGenex Announcements

In Table 6.6 below, we have set out ChemGenex's VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months to 21 October 2010.

Table 6.6: ChemGenex's VWAP Prior to 21 October 2010

Period Before 21 October 2010	VWAP Period	VWAP (\$)
1 week	15 October 2010 to 21 October 2010	0.4456
1 Month	22 September 2010 to 21 October 2010	0.4480
3 Months	22 July 2010 to 21 October 2010	0.4168
6 Months	22 April 2010 to 21 October 2010	0.3676
9 Months	22 January 2010 to 21 October 2010	0.4440
12 Months	22 October 2009 to 21 October 2010	0.5230

Source: Bloomberg

The VWAP of ChemGenex shares over the above period ranges from \$0.3676 to \$0.5230. Refer to Appendix B for further discussion.

### 6.3.2 Liquidity

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 6.7 below summarises the monthly liquidity of ChemGenex shares from October 2009 to October 2010. Liquidity has been summarised by considering the following:

- Value of total trades in ChemGenex shares per month;
- Volume of ChemGenex share trades per month;
- VWAP of ChemGenex shares per month;
- Number of trades in ChemGenex shares per month;
- Average value of trades per month; and
- Average volume of trades per month.

Table 6.7: Liquidity of ChemGenex shares

Month	Value of Trades (\$)	Volume of Shares Traded	VWAP (\$)	Number of Trades	Average Value per Trade (\$)	Average Volume of Shares per Trade
Oct-10 <sup>(a)</sup>	4,172,405	9,038,897	0.4616	1,480	2,819	6,107
Sep-10	1,279,602	3,544,475	0.3610	663	1,930	5,346
Aug-10	711,317	2,065,542	0.3444	376	1,892	5,493
Jul-10	2,237,534	6,636,511	0.3372	850	2,632	7,808
Jun-10	2,363,143	7,641,664	0.3092	843	2,803	9,065
May-10	2,289,158	6,782,595	0.3375	812	2,819	8,353
Apr-10	7,147,994	16,168,799	0.4421	1,869	3,825	8,651
Mar-10	49,257,741	118,566,297	0.4154	8,369	5,886	14,167
Feb-10	13,034,899	18,285,458	0.7129	3,151	4,137	5,803
Jan-10	6,652,782	7,013,451	0.9486	1,766	3,767	3,971
Dec-09	14,942,058	15,308,066	0.9761	3,663	4,079	4,179
Nov-09	13,219,111	14,398,857	0.9181	2,524	5,237	5,705
Oct-09	3,845,307	5,084,538	0.7563	734	5,239	6,927
<b>Total<sup>(b)</sup></b>	<b>121,153,053</b>	<b>230,535,150</b>	<b>0.5255</b>	<b>27,100</b>	<b>4,471</b>	<b>8,507</b>

Source: Bloomberg as at 26 March 2010

- (a) Covers the period 1 October 2010 to 21 October 2010.  
(b) The totals for the 'VWAP', 'Average Value per Trade' and 'Average Volume of Shares Per Trade' columns are the overall averages of those columns.

Assuming a consistent number of 283,348,870 ordinary ChemGenex shares on issue, approximately 78.2% of total shares on issue were traded over the 12 month period to September 2010.<sup>4</sup> This indicates that ChemGenex's shares display a reasonable level of liquidity. Refer to Appendix B for further analysis.

## 6.4 Financial Information of ChemGenex

This section of this Report sets out summarised financial information for ChemGenex. As this Report contains only summarised financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in the full statements of comprehensive income/income statement, statements of financial position/balance sheet and statements of cash flows.

The current auditors of ChemGenex are Ernst & Young. BDO CFQ has not performed any audit or review of any type on the historical financial information of ChemGenex for this Report. We make no statement as to the accuracy of the information however we have no reason to believe that the financial information is not complete and accurate.

### 6.4.1 Financial Performance

The consolidated Statement of Comprehensive Income of ChemGenex for the 12-month periods ended 30 June 2008, 30 June 2009 and 30 June 2010 are summarised in Table 6.8 below.

For completeness, we note that Table 6.8 does not contain the other comprehensive income reported in ChemGenex's financial accounts for the year ended 30 June 2010.

<sup>4</sup> The month of October 2010 has been excluded from this calculation.

Table 6.8: ChemGenex Statement of Comprehensive Income for 12 Months Ended 30 June 2008, 2009, and 2010

	12 Months Ended 30 June 2008 Audited (\$'000)	12 Months Ended 30 June 2009 Audited (\$'000)	12 Months Ended 30 June 2010 Audited (\$'000)
Sales royalties	-	237	308
Cost of goods sold	-	(9)	(71)
<b>Gross Profit</b>	-	<b>228</b>	<b>237</b>
Finance income	1,055	457	418
Commercialisation alliance income	-	-	17,498
Other income	1,468	871	29
Research and development expenses	(9,234)	(14,926)	(10,909)
Patent expense <sup>(a)</sup>	(407)	-	-
Legal expense <sup>(a)</sup>	(211)	-	-
Travel expense <sup>(a)</sup>	(446)	-	-
Accounting and audit expense <sup>(a)</sup>	(568)	-	-
Commercial expenses	-	(692)	(1,589)
Employee benefits expense	(7,299)	(6,957)	(6,800)
Administration expenses	(1,825)	(2,666)	(4,212)
Foreign exchange benefit (loss)	181	(2,139)	(412)
Depreciation	(114)	(146)	(127)
<b>Loss Before Tax</b>	<b>(17,399)</b>	<b>(25,970)</b>	<b>(5,867)</b>
Income tax (expense)/benefit	35	26	(151)
<b>Loss After Tax</b>	<b>(17,364)</b>	<b>(25,944)</b>	<b>(6,018)</b>

Source: ChemGenex Annual Financial Reports for the Year Ended 30 June 2009 and 2010

(a) Not shown as separate line items in the ChemGenex Annual Financial Report for the Year Ended 30 June 2010.

(b) We note that the Statements of Comprehensive Income shown in Table 6.8 exclude discontinued operations.

With reference to Table 6.8 above, we note the following:

- The commercialisation alliance income of \$17.5 million in 2010 relates to the agreement ChemGenex entered into with Hospira to license develop and commercialise Omacetaxine in Europe, the Middle East and parts of Africa; and
- ChemGenex reported a net loss after tax of \$25.9 million in 2009 and a net loss after tax of \$6.0 million in 2010.

#### 6.5.2 Financial Position

The consolidated Statement of Financial Position of ChemGenex as at 30 June 2008, 30 June 2009 and 30 June 2010 are summarised in Table 6.9 below.

Table 6.9: ChemGenex Statement of Financial Position as at 30 June 2008, 2009 and 2010

	30 June 2008 Audited (\$'000)	30 June 2009 Audited (\$'000)	30 June 2010 Audited (\$'000)
<b>Current Assets</b>			
Cash and cash equivalents	10,082	17,655	12,802
Trade and other receivables	-	133	98
Inventories	-	27	-
Income tax receivable	-	-	13
Prepayments	576	282	412
<b>Total Current Assets</b>	<b>10,658</b>	<b>18,097</b>	<b>13,325</b>
<b>Non-Current Assets</b>			
Available for sale financial assets	-	-	7
Plant and equipment	355	208	255
Intangible assets and goodwill	16,932	58,740	58,361
<b>Total Non-Current Assets</b>	<b>17,287</b>	<b>58,948</b>	<b>58,623</b>
<b>Total Assets</b>	<b>27,945</b>	<b>77,045</b>	<b>71,948</b>
<b>Current Liabilities</b>			
Trade and other payables	3,062	2,796	2,256
Employee entitlements	303	321	387
Provision for income tax	-	88	-
<b>Total Current Liabilities</b>	<b>3,364</b>	<b>3,205</b>	<b>2,643</b>
<b>Non-Current Liabilities</b>			
Employee entitlements	71	89	99
<b>Total Non-Current Liabilities</b>	<b>71</b>	<b>89</b>	<b>99</b>
<b>Total Liabilities</b>	<b>3,435</b>	<b>3,294</b>	<b>2,742</b>
<b>Net Assets</b>	<b>24,509</b>	<b>73,751</b>	<b>69,206</b>
Issued capital	108,999	164,163	164,599
Retained losses	(99,943)	(107,978)	(113,996)
Other reserves	15,453	17,566	18,603
<b>Total Equity</b>	<b>24,509</b>	<b>73,751</b>	<b>69,206</b>

Source: ChemGenex Annual Financial Report for the Years Ended 30 June 2009 and 2010

With reference to Table 6.9 above, we note the following:

- Cash and cash equivalents increased by 75.1% to \$17.7 million in 2009 before decreasing by 27.5% to \$12.8 million in 2010;
- Intangible assets and goodwill increased to \$58.7 million in 2009 due to ChemGenex obtaining the full commercial control of Omacetaxine in Europe from Stragen following the agreement of an Intellectual Property Assignment Deed between ChemGenex and Stragen. As a condition of the Intellectual Property Assignment Deed, ChemGenex issued Stragen with 37,235,343 ordinary shares in the Company;
- ChemGenex had no debt in 2008, 2009 or 2010; and



- Net assets increased by 200.9% to \$73.8 million in 2009 before decreasing by 6.2% to \$69.2 million in 2010.

### 6.5.3 Statement of Cash Flows

The consolidated Statement of Cash Flows of ChemGenex for the years ended 30 June 2008, 30 June 2009 and 30 June 2010 are summarised in Table 6.10 below.

	30 June 2008 Audited (\$'000)	30 June 2009 Audited (\$'000)	30 June 2010 Audited (\$'000)
<b>Cash flows from operating activities:</b>			
Commercialisation alliance and service agreement receipts	66	80	17,527
Sales royalties received from customers	-	142	377
Government grants received	1,545	828	-
Payments to suppliers and employees	(17,807)	(25,198)	(22,518)
Income taxes paid	-	-	(164)
Revenue from discontinued operations	196	-	-
<b>Net cash inflow (outflow) from operating activities</b>	<b>(16,000)</b>	<b>(24,148)</b>	<b>(4,778)</b>
<b>Cash flows from investing activities</b>			
Interest received	1,055	457	382
Purchase of available-for-sale investments	-	-	(7)
Cash provided for demerger of Autogen Research Pty Ltd	(150)	-	-
Purchase of plant and equipment	(388)	(89)	(151)
<b>Net cash inflow (outflow) from investing activities</b>	<b>517</b>	<b>368</b>	<b>224</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares	726	31,424	446
Transaction cost of issue of shares	-	(1,172)	(10)
<b>Net cash inflow (outflow) from financing activities</b>	<b>726</b>	<b>30,252</b>	<b>436</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(14,756)</b>	<b>6,472</b>	<b>(4,118)</b>
Net foreign exchange differences	(529)	1,101	(735)
Cash and cash equivalents at the beginning of the financial year	25,367	10,082	17,655
<b>Cash and cash equivalents held at the end of the financial year</b>	<b>10,082</b>	<b>17,655</b>	<b>12,802</b>

Source: ChemGenex Annual Financial Report for the Years Ended 30 June 2009 and 2010

With reference to Table 6.10 above, we note the following:

- The commercialisation alliance and service agreement receipts figure of \$17.5 million in 2010 relates to the agreement ChemGenex entered into with Hospira to license develop and commercialise Omacetaxine in Europe, the Middle East and parts of Africa; and
- The Company raised approximately \$31.4 million via the issuance of ordinary shares in ChemGenex in the financial year ended 30 June 2009.

## 7.0 Background of Cephalon<sup>5</sup>

Section 7.0 of this Report is set out as follows:

- Section 7.1 provides a brief overview of Cephalon;
- Section 7.2 describes the share market performance of Cephalon; and
- Section 7.3 summarises the historical financial information of Cephalon.

### 7.1 Overview of Cephalon

Cephalon, Inc is an international biopharmaceutical company dedicated to the discovery, development and commercialisation of innovative products in four core therapeutic areas: central nervous system, pain, oncology and inflammatory disease.

In addition to conducting an active research and development program, Cephalon, Inc markets numerous branded and generic products around the world. In total, Cephalon, Inc sells more than 150 products in nearly 100 countries.

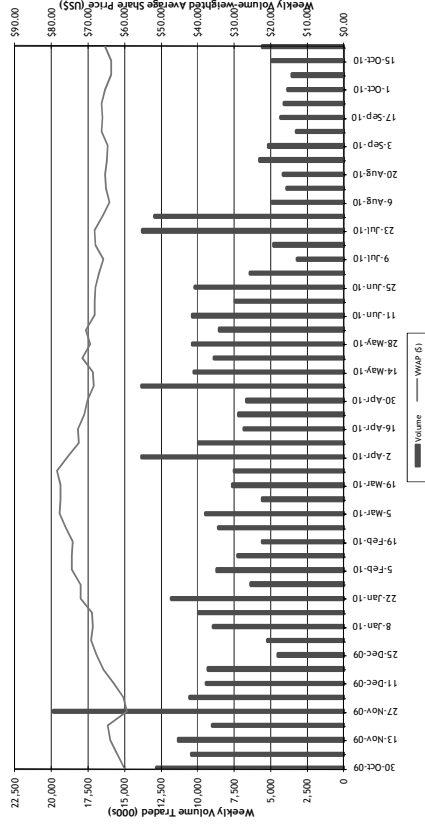
For the year ended 31 December 2009, Cephalon's total revenues and net income were US\$2.2 billion and US\$210.7 million respectively.<sup>6</sup> As at the date of this Report, Cephalon has a market capitalisation of approximately US\$5.0 billion.

The company's most significant products are their wakefulness products, Provigil and Nuvigil, which together accounted for 51% of the company's consolidated net sales for the year ended 31 December 2009, of which 94% was in the US market. Cephalon's next two most significant products are Fentora and Actiq, which, on a combined basis, accounted for 17% of the company's consolidated net sales for the year ended 31 December 2009, of which 80% was in the US market.

### 7.2 Share Market Performance of Cephalon

Cephalon's shares are listed on the NASDAQ stock exchange. Figure 7.1 below shows the weekly VWAP of Cephalon shares and the volume of shares traded each week over the period from 23 October 2009 to 22 October 2010 inclusive.

Figure 7.1: Weekly VWAP and Volume Traded for Cephalon from 23 October 2009 to 22 October 2010



Source: Bloomberg

Over the period graphed in Figure 7.1, the Cephalon weekly VWAP shows a period low of US\$59.3161 for the week ended 27 November 2009 and a period high of US\$78.5994 for the week ended 26 March 2010.

In Table 7.1 below, we have set out Cephalon's VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months up to 22 October 2010.

Table 7.1: Cephalon's VWAP Prior to 22 October 2010

Period Before 22 October 2010	VWAP Period	VWAP (US\$)
1 week	16 October 2010 to 22 October 2010	65.3023
1 Month	23 September 2010 to 22 October 2010	64.6787
3 Months	23 July 2010 to 22 October 2010	65.2472
6 Months	23 April 2010 to 22 October 2010	67.4964
9 Months	23 January 2010 to 22 October 2010	70.2443
12 Months	23 October 2009 to 22 October 2010	68.2967

Source: Bloomberg

The VWAP of Cephalon shares over the above period ranges from US\$64.68 to US\$70.24.

<sup>5</sup> Information in this section is sourced from public announcements and financial reports of Cephalon and information available on Cephalon's website.

<sup>6</sup> Refer to Section 7.3 of this Report for a summary of the historical financial information of Cephalon.

### 7.3 Historical Financial Information of Cephalon

This section of this Report sets out the historical financial information of Cephalon and its consolidated entities. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in the full financial statements of Cephalon, prepared in accordance with United States Generally Accepted Accounting Principles.

Cephalon is audited by PricewaterhouseCoopers. BDO CFQ has not performed any audit or review of any type on the historical financial information of Cephalon. We make no statement as to the accuracy of the information however we have no reason to believe that the financial information is not complete and accurate.

#### 7.3.1 Financial Performance

The consolidated Statement of Operations of Cephalon for the 12 month periods ended 31 December 2008 and 2009 and for the 6 month period ended 30 June 2010 are summarised in Table 7.2 below.

Table 7.2: Cephalon Statements of Operations for the 12 Months Ended 31 December 2008 and 2009 and for the 6 Months Ended 30 June 2010

	12 Months Ended 31 December 2008 Audited (US\$'000)	12 Months Ended 31 December 2009 Audited (US\$'000)	6 Months Ended 30 June 2010 Unaudited (US\$'000)
Net sales	1,943,464	2,151,548	1,289,116
Other revenues	31,090	40,760	34,379
<b>Total Revenues</b>	<b>1,974,554</b>	<b>2,192,308</b>	<b>1,323,495</b>
Cost of sales	(412,234)	(398,837)	(275,782)
Research and development	(362,208)	(395,431)	(206,638)
Selling, general and administrative	(840,873)	(822,052)	(463,109)
Settlement reserve	(7,450)	-	-
Impairment charges	(99,719)	(182,080)	-
Restructuring charges	(8,415)	(13,825)	(5,325)
Acquired in-process research and development	(41,955)	(46,118)	-
Loss on sale of equipment	(17,178)	-	-
<b>Income (Loss) from Operations</b>	<b>184,522</b>	<b>333,965</b>	<b>372,641</b>
Interest income	16,901	5,263	3,230
Interest expense	(75,233)	(90,336)	(54,973)
Other income (expense), net	7,880	40,515	(16,603)
<b>Income (Loss) Before Income Taxes</b>	<b>134,070</b>	<b>289,407</b>	<b>304,295</b>
Income tax (expense) benefit	37,819	(78,680)	(111,565)
<b>Net Income (Loss)</b>	<b>171,889</b>	<b>210,727</b>	<b>192,730</b>

	12 Months Ended 31 December 2008 Audited (US\$'000)	12 Months Ended 31 December 2009 Audited (US\$'000)	6 Months Ended 30 June 2010 Unaudited (US\$'000)
Net Income (Loss) Attributable to Non Controlling Interest	21,073	131,900	6,899
<b>Net Income (Loss) Attributable to Cephalon</b>	<b>192,962</b>	<b>342,627</b>	<b>199,629</b>

Source: Cephalon Annual Report for the Year Ended 31 December 2009 and Half Yearly Report for the 6 Months Ended 30 June 2010

### 7.3.2 Financial Position

The consolidated balance sheets of Cephalon as at 31 December 2008 and 2009 and as at 30 June 2010 are summarised in Table 7.3.

Table 7.3: Cephalon Balance Sheets as at 31 December 2008 and 2009 and as at 30 June 2010

	31 December 2008 Audited (US\$'000)	31 December 2009 Audited (US\$'000)	30 June 2010 Unaudited (US\$'000)
<b>Current Assets</b>			
Cash and cash equivalents	524,459	1,647,635	927,446
Receivables, net	409,580	376,076	460,265
Inventory, net	117,297	240,576	293,679
Deferred tax assets, net	224,066	243,246	224,651
Other current assets	54,120	58,423	62,724
<b>Total Current Assets</b>	<b>1,329,522</b>	<b>2,565,956</b>	<b>1,968,765</b>
<b>Non-Current Assets</b>			
Investments	8,081	12,427	12,583
Property and equipment, net	467,449	451,879	499,578
Goodwill	445,332	590,284	802,551
Intangible assets, net	607,332	981,857	1,210,810
Deferred tax assets, net	46,074	237	-
Debt issuance costs	11,838	18,862	16,529
Other assets	167,314	36,593	35,078
<b>Total Non-Current Assets</b>	<b>1,753,420</b>	<b>2,092,139</b>	<b>2,577,129</b>
<b>Total Assets</b>	<b>3,082,942</b>	<b>4,658,095</b>	<b>4,545,894</b>
<b>Current Liabilities</b>			
Current portion of long-term debt, net	781,618	818,925	635,932
Accounts payable	87,079	88,829	99,674
Accrued expenses	304,415	430,209	467,200
<b>Total Current Liabilities</b>	<b>1,173,112</b>	<b>1,337,963</b>	<b>1,202,806</b>

	31 December 2008 Audited (US\$'000)	31 December 2009 Audited (US\$'000)	30 June 2010 Unaudited (US\$'000)
<b>Non-Current Liabilities</b>			
Long-term debt	3,692	363,696	378,116
Deferred tax liabilities	77,932	159,328	206,855
Other liabilities	163,123	111,728	268,472
<b>Total Non-Current Liabilities</b>	<b>244,747</b>	<b>634,752</b>	<b>853,443</b>
<b>Total Liabilities</b>	<b>1,417,859</b>	<b>1,972,715</b>	<b>2,056,249</b>
<b>Net Assets</b>	<b>1,665,083</b>	<b>2,685,380</b>	<b>2,489,645</b>
Common stock	717	780	784
Additional paid-in capital	2,095,324	2,534,070	2,388,730
Treasury stock	(201,705)	(208,427)	(216,597)
Accumulated deficit	(521,286)	(178,659)	20,970
Accumulated other comprehensive income	43,630	114,194	46,159
<b>Total Cephalon Stockholders' Equity</b>	<b>1,416,680</b>	<b>2,261,958</b>	<b>2,240,046</b>
Non-controlling interest	-	216,115	63,444
<b>Total Equity</b>	<b>1,416,680</b>	<b>2,478,073</b>	<b>2,303,490</b>
<b>Redeemable Equity</b>	<b>248,403</b>	<b>207,307</b>	<b>186,155</b>
<b>Total</b>	<b>1,665,083</b>	<b>2,685,380</b>	<b>2,489,645</b>

Source: Cephalon Annual Report for the Year Ended 31 December 2009 and Half Yearly Report for the 6 Months Ended 30 June 2010

## 8.0 Assessment of the Fairness of the Proposed Conversion

This section of this Report sets out our opinion on the fairness of the Proposed Conversion to ChemGenex Shareholders. In this section we have:

- Considered the value per ChemGenex share on a controlling interest basis adopting the Market Based Valuation methodology (refer to Section 8.1 below);
- Considered the value of the conversion price under the Convertible Note Subscription Deed (refer to Section 8.2 below);
- Compared our value per ChemGenex share on a controlling interest basis with the conversion price under the Proposed Conversion (refer to Section 8.3);
- Considered other capital raisings involving large parcels of shares in ChemGenex (refer to Section 8.4);
- Considered the premium / discount implied by the conversion price under the Proposed Conversion (refer to Section 8.5); and
- Concluded whether the Proposed Conversion is Fair based on the above analysis.

### 8.1 Value of ChemGenex

In our view, it is appropriate to adopt a value per ChemGenex share in the range of \$0.463 to \$0.608 for the purposes of assessing the Proposed Conversion. Our valuation of ChemGenex is set out in detail in Appendix B of this Report.

In our view, the most appropriate valuation methodology to apply to ChemGenex is the Market Based Valuation methodology. The elements of our methodology include:

- The recent share market trading prices achieved for the trading of minority parcels of ChemGenex shares;
- The liquidity of ChemGenex shares; and
- Any other recent transactions involving significant parcels of ChemGenex shares.

We have cross checked our valuation of ChemGenex with price/book value multiples implied by the trading multiples of comparable biotechnology companies adjusted for a control premium. Our cross check shows that the price/book value multiple implied by our valuation of ChemGenex is within the range of the price/book value multiples of comparable biotechnology companies.

Our assessment of the value per ChemGenex share as outlined above is on a controlling interest basis for reasons which include the following:

- As outlined in Section 4.1, approval for the Proposed Conversion is being sought in accordance with the requirements of item 7 of section 611 of the Act;

- ASIC RG 111 requires that an issue of shares (where a potential allottee of shares will acquire a relevant interest in more than 20% of the shares of a company) requiring approval under item 7 of section 611 of the Act is comparable to a takeover bid. In this case, the expert is required to analyse the transaction as if it were a takeover bid under Chapter 6 of the Act; and
- Following the Proposed Conversion, Cephalon may obtain a relevant interest in up to 27.6% of the shares of ChemGenex. Cephalon has the potential as set out in Table 3.1, to obtain a shareholding in ChemGenex which may provide it with significant influence, or even control, over the Company. RG 111 notes that in substance, an issue of shares by the Company requiring shareholder approval under item 7 of section 611 of the Act often achieves a similar outcome to situations, where, for example, the allottee (Cephalon in this case) may have used a cash rich entity to make a scrip takeover bid for the company. RG 111 states that in these circumstances the effect on the company's shareholding is comparable to a takeover bid.

Having regard to the above mentioned matters, it is our view that it is appropriate to assess the value of ChemGenex shares for the purposes of the Proposed Conversion including a control premium.

The level of influence or control that Cephalon ultimately obtains will be dependent on a range of matters, including, for example:

- whether or not Cephalon elects to convert the Convertible Notes into ChemGenex shares;
- whether Cephalon elects to exercise the options issued under the Option Transactions; and
- other variables including the timing of any conversion and other capital raisings that the Company undertakes over time.

We have considered these issues further in Section 9.0 in our assessment of the reasonableness of the Proposed Conversion.

## 8.2 Consideration of the Conversion Price

The conversion price under the Proposed Conversion is \$0.50 per ChemGenex share. As outlined in Section 3.2, the conversion price may be adjusted upon the occurrence of certain events over the term of the Convertible Notes, predominantly related to changes in the capital structure of ChemGenex as outlined in the Convertible Note Subscription Deed.

As at the date of this Report, no such changes have been made to ChemGenex's capital structure. ChemGenex management have indicated that the Company does not intend to change its capital structure as outlined in the Convertible Note Subscription Deed over the specified timeframe. For the purposes of our assessment, it is our view that it is appropriate to adopt the value of the conversion price under the Proposed Conversion as \$0.50 per ChemGenex share.

## 8.3 Comparison of the Value of a ChemGenex Share with the Conversion Price

In this section we have compared our value per ChemGenex share on a controlling interest basis with the conversion price under the Proposed Conversion. Table 8.1 sets out this comparison.

Table 8.1: Comparison of the value per ChemGenex Share with the Conversion Price

Section	Low (\$)	High (\$)
Value per ChemGenex Share	0.463	0.608
Conversion price per ChemGenex Share	0.500	0.500

Table 8.1 above shows that the value of conversion price under the Proposed Conversion overlaps with the valuation range of each ChemGenex share. We note that the higher end of the ChemGenex share valuation range is greater than the value of the conversion price.

## 8.4 Consideration of Recent Capital Raisings

In this section we have considered recent capital raisings and impending sale transactions involving large parcels of ChemGenex shares.

### 8.4.1 Recent Capital Raisings of ChemGenex

ChemGenex completed a number of capital raisings in the 2009 financial year. Details of the Company's capital raisings over the 2009 financial year are set out in Table 8.2 below.

Table 8.2: Capital Raisings in 2009 Financial Year

Description	Date	Number of Shares Issued	Shares Issued as a % of total shares on issue <sup>(a)</sup>	Issue Price	Previous Day's Trading Price	1 Month VWAP	Premium / (Discount) to Previous Trading VWAP Price
Shares issued to Stragen for acquisition of intellectual property	23/07/2008	37,235,343	19.9%	1.15	1.17	1.09	(1.7%) 5.6%
Placement	17/09/2008	15,216,153	8.1%	0.85	0.81	0.95	4.9% (10.6%)
Placement	13/10/2008	150,568	0.1%	0.85	0.59	0.75	44.1% 13.9%
Issuance of Ordinary Shares	9/04/2009	23,255,814	12.4%	0.43	0.52	0.47	(17.3%) (9.3%)
Rights Issue	27/05/2009	17,122,453	9.2%	0.43	0.50	0.45	(13.1%) (5.3%)
Issuance of Ordinary Shares	27/05/2009	2,325,580	1.2%	0.43	0.50	0.45	(13.1%) (5.3%)
Exercise of listed options	27/05/2009	30	0.0%	0.68	0.50	0.45	37.4% 49.8%

Source: ChemGenex Announcements and Bloomberg

(a) Shares issued as a percentage of total shares on issue as at the previous financial year end.

From Table 8.2, we note that ChemGenex has completed significant capital raisings in the 2009 financial year at discounts ranging between 5.3% and 10.6% compared to the 1 month VWAP prior to those issues (excluding the Stragen issue and the two raisings of less than 1 million shares).

The Company has not undertaken a rights issue, placement or other similar equity capital market raising in the 2010 financial year as it has continued to utilise the funding from the 2009 raisings as well as receiving the initial payment of \$17.5 million received under the agreement with Hospira.

The Company has, however, issued new shares upon exercise of its listed options and employee share options in the 2010 financial year. As set out in Table 6.4, a total of 930,655 options representing 0.3% of the total number of shares currently on issue were exercised at an average price of \$0.48 per share raising \$446,419 in equity capital over the course of the 2010 financial year.

The above analysis of the capital raisings for the 2009 year in particular, shows that the Company has raised significant amounts of capital at relatively lower discounts to its market trading price when compared to a number of recent capital raisings by comparable Australian biotechnology companies as set out in Appendix D of this Report. We note that certain comparable biotechnology companies offered discounts ranging from approximately 6.5% to over 50%, with an average discount to their 1 month VWAP of approximately 13.4% (including comparable company issues completed at a premium). Refer to Appendix D and Section 9.4 for further information.

The Proposed Conversion does not imply a discount to the recent market trading prices of ChemGenex shares.

#### 8.4.2 The Option Transactions

As outlined in Section 3.3, Cephalon has entered into the Option Transactions to acquire up to 56,386,425 of the shares in ChemGenex from Stragen and Merck collectively at an exercise price of \$0.70 per share.

The options are exercisable at the discretion of Cephalon by the later of 31 March 2011 and one week after the actual completion of the Data Collection Milestone.

The Option Transactions have been entered into for a nominal consideration.

In our view, while there is no certainty at the date of this Report as to whether the options issued under the Option Transactions will be exercised, it is useful to have regard to the Option Transactions as material transactions in which a significant parcel of ChemGenex shares representing a relevant interest in approximately 19.9% of the Company may be traded in the near term. The vendors have agreed to offer the options at nominal cost and with an exercise price of \$0.70 per share to an acquirer at arm's length.

The options on their own have a value. As the options were issued to Cephalon at nominal cost, it is appropriate, in our view, to consider that the exercise price of \$0.70 per share includes the value reasonably attributable to the provision of the options and the uncertainty as to whether or not they will be ultimately exercised. If this value were taken into account and subtracted from the exercise price of \$0.70, the difference between the exercise price offered to Stragen and Merck for their shares under the Option Transactions and the conversion price of \$0.50 offered under the Proposed Conversion would be materially lower.

#### 8.5 Premium / Discount implied by the Conversion Price

We note that the conversion price under the Proposed Conversion implies the following:

- A premium over the 1-month VWAP of ChemGenex shares on 21 October 2010 (day prior to the announcement) of approximately 11.6%;
- A premium over our market based valuation of ChemGenex shares on a minority basis of 11% (at the high end of the valuation range) to 35% (at the low end of the valuation range); and
- A discount to the exercise price of the options under the Option Transactions of approximately 28.5%.

On balance, the conversion price implies a control premium to observed market prices and our market based valuation of ChemGenex on a minority interest basis of approximately 11% to 35%. This control premium range overlaps with our adopted control premium range of 25% to 35%. Refer Section B.3 of Appendix B for further information.

#### 8.6 Assessment of Fairness

In assessing the Proposed Conversion we have considered the following:

- The value of ChemGenex shares on a controlling interest basis;
- A comparison of the value of ChemGenex shares on a controlling interest basis with the conversion price under the Proposed Conversion;
- Our consideration of recent capital raisings completed by ChemGenex and impending transactions involving large parcels of ChemGenex shares; and
- Our consideration of the premium / discount implied by the conversion price under the Proposed Conversion.

**Having regard to the above assessment of the Proposed Conversion, it is our opinion that in the absence of a superior offer, the Proposed Conversion is Fair to the ChemGenex Shareholders.**

ChemGenex Shareholders should also refer to Section 9.0 of this Report regarding additional issues that they should consider when deciding whether to vote in favour of or against the Proposed Conversion.

## 9.0 Effect of the Proposed Conversion on ChemGenex Shareholders

This section of this Report is set out as follows:

- Section 9.1 outlines the advantages of the Proposed Conversion to ChemGenex Shareholders;
- Section 9.2 outlines the disadvantages of the Proposed Conversion to ChemGenex Shareholders;
- Section 9.3 considers the position of ChemGenex Shareholders in the event the Proposed Conversion is not approved; Section 9.4 sets out other considerations in relation to the Proposed Conversion; and
- Section 9.5 provides our assessment of the reasonableness of the Proposed Conversion.

### 9.1 Advantages of the Proposed Conversion

Table 9.1 below outlines the potential advantages to ChemGenex Shareholders of approving the Proposed Conversion.

Approving the Proposed Conversion is a critical step in realising the advantages outlined below. However, certain advantages listed below can only be achieved if there are no events of default and if the Data Collection Milestone is also met in addition to the approval of the Proposed Conversion. ChemGenex management have indicated that they are confident of achieving the Data Collection Milestone.

**Table 9.1: Potential Advantages to ChemGenex Shareholders of the Proposed Conversion**

Advantages	Explanation
Access to funding	<ul style="list-style-type: none"> <li>• Given the recent volatility in Australian and global financial markets, pre-revenue biotechnology companies continue to find it difficult to complete relatively large capital raisings on acceptable terms;</li> <li>• Approval of the Proposed Conversion will allow ChemGenex to access up to \$5 million through the second tranche of the Convertible Notes to be issued to Cephalon and retain the funding of \$10 million from the first tranche of the Convertible Notes (assuming there are no events of default at that time). Refer to Section 3.2 of this Report for additional discussion;</li> <li>• ChemGenex management have informed us that they are confident of meeting the Data Collection Milestone; and</li> <li>• The funding provided under the Convertible Note Subscription Deed will assist ChemGenex to achieve the Data Collection Milestone and to continue its development of Omacetaxine.</li> </ul>

- Continuation of operations
- The Company's current cash burn rate is over \$1 million per month. The Company expects to exhaust its current cash balance by 31 January 2011;
  - We are informed that the Company requires immediate funding to enable it to meet funding commitments in relation to the Data Collection Milestone and other development activities; and
  - The Convertible Notes provide an immediate source of funds to continue ChemGenex's current level of operations.

Advantages	Explanation
Interest may not be payable on \$15 million of funding	<ul style="list-style-type: none"> <li>• The Convertible Notes bear interest at 10% per annum;</li> <li>• If the Proposed Conversion is approved and there are no events of default prior to 31 December 2010, no interest will be payable by ChemGenex for the term of the Convertible Notes;</li> <li>• This would provide funding of up to \$15 million to ChemGenex on an interest-free basis until the Convertible Notes are converted into shares; and</li> <li>• Given the difficulties generally faced by biotechnology and other companies in accessing funding from debt markets, this represents an opportunity for the Company to obtain funding on relatively attractive terms.</li> </ul>
Cephalon may not acquire control	<ul style="list-style-type: none"> <li>• Based on our assessment of fairness in Section 8.5 of this Report, the conversion price includes a control premium;</li> <li>• As outlined in Section 8.1 and described further in Section 9.4 below, while Cephalon may obtain significant influence over ChemGenex if the Proposed Conversion is approved, it is unlikely to acquire control of ChemGenex as it will hold less than 50% of the shares on issue in ChemGenex. This is notwithstanding that Cephalon may acquire up to 30 million shares in ChemGenex upon conversion (assuming no interest is capitalised); and</li> <li>• Our analysis in Section 8.4.1 and Appendix D shows that secondary market raisings representing a material interest in biotechnology companies have recently been concluded at an average discount of approximately 13.4% to their 1-month VWAP.</li> </ul>
Potential to strengthen US networks	<ul style="list-style-type: none"> <li>• The Directors are of the view that the approval of the Proposed Conversion may enable ChemGenex to further strengthen its networks within the US and that it may assist to provide additional institutional and strategic interest in the Company. This is further reinforced by Cephalon being listed on the NASDAQ exchange in the US.</li> </ul>
Reduced transaction costs	<ul style="list-style-type: none"> <li>• If Cephalon elects to convert the Convertible Notes into equity in ChemGenex, the issue of the shares will not result in the Company incurring additional transaction costs. If the Company chose to raise funds through a placement or rights issue, it would incur additional transaction costs.</li> </ul>
Potential for release of the Charge held over the Company's assets	<ul style="list-style-type: none"> <li>• If there are no events of default and the Data Collection Milestone is achieved in accordance with the timeline specified in the Convertible Note Subscription Deed, the Charge held over the Company's assets will be released; and</li> <li>• The Proposed Conversion will assist to provide the required level of funding to complete the Data Collection Milestone within the specified timeline.</li> </ul>

## 9.2 Disadvantages of the Proposed Conversion

Table 9.2 below outlines the potential disadvantages to ChemGenex Shareholders of the Proposed Conversion.

**Table 9.2: Disadvantages to ChemGenex Shareholders of the Proposed Conversion**

Disadvantages	Explanation
Potential dilution of ChemGenex Shareholders	<ul style="list-style-type: none"> <li>• Cephalon has the potential to be issued with approximately 30 million new shares in ChemGenex (excluding any shares that may be issued upon conversion of any capitalised interest) which has the potential to dilute the holdings of other ChemGenex Shareholders; and</li> <li>• Dilution would reduce any potential future benefits current ChemGenex Shareholders may receive from the Company. Refer to Section 9.4 for further information about the potential dilution of ChemGenex Shareholders' interest in the Company.</li> </ul>

Disadvantages	Explanation
Potential for on-market sale of a significant number of the shares in the Company	<ul style="list-style-type: none"> <li>As mentioned above, Cephalon has the potential to be issued with approximately 30 million new shares in ChemGenex;</li> <li>Under the Convertible Note Subscription Deed, there is no restriction on Cephalon selling the shares in ChemGenex on-market; and</li> <li>If Cephalon sells a significant number of ChemGenex shares, there may be downward pressure on the share trading price of ChemGenex due to the significant increase in supply of ChemGenex shares on the market. If there is insufficient demand to absorb the increased volume of shares offered for sale.</li> </ul>
Potential to deter takeover bid	<ul style="list-style-type: none"> <li>Cephalon's potential ownership of up to 27.6% of the shares in ChemGenex is unlikely to provide Cephalon with the right or ability to control the operations of ChemGenex, however, it may afford Cephalon a significant level of influence. Refer to Section 9.4 below for further analysis on potential shareholding;</li> <li>During the Option Period, ChemGenex is unable to source funding from any other sources unless Cephalon does not subscribe for the second \$5 million tranche of Convertible Notes or has issued a redemption notice;</li> <li>Changes to the capital structure of ChemGenex over the life of the Convertible Notes which may have a different dilutionary impact on the existing ChemGenex Shareholders and on Cephalon as the Convertible Note holder are permitted under the Convertible Note Subscription Deed as long as the conversion price is adjusted in accordance with the Convertible Note Subscription Deed; and</li> <li>This level of ownership or blocking stake may have the potential to deter takeover offers.</li> </ul>
Price implied by contemporaneous Option Transactions	<ul style="list-style-type: none"> <li>Cephalon has entered into the Option Transactions with Stragen and Merck collectively to acquire up to 56,386,425 of the ordinary shares in ChemGenex as follows: <ul style="list-style-type: none"> <li>Stragen has agreed to sell 34,254,463 of the ordinary ChemGenex shares it holds to Cephalon at \$0.70 per share; and</li> <li>Merck has agreed to sell 22,131,962 of the ordinary ChemGenex shares it holds to Cephalon at \$0.70 per share.</li> </ul> </li> <li>The ordinary shares the subject of the Option Transactions represent approximately 50% of the holdings of both Stragen and Merck respectively;</li> <li>The exercise period for the options is also in effect related to the Data Collection Milestone; and</li> <li>If the Proposed Conversion is implemented and Cephalon elects to convert the Convertible Notes into ordinary shares in ChemGenex, the conversion price of \$0.50 per share will be \$0.20 or approximately 28.5% lower than the exercise price under the Option Transactions. Refer to Section 8.4.2 for further information.</li> </ul>

### 9.3 Impact on ChemGenex Shareholders if the Proposed Conversion Is Not Approved

It is important for ChemGenex Shareholders to note that if the Proposed Conversion is not approved, the implications for ChemGenex will include the following:

- The \$10 million tranche previously drawn down by the Company will attract interest at the rate of 10% per annum compounded quarterly. In accordance with the Convertible Note Subscription Deed, if the Proposed Conversion is not approved, there will be no opportunity to reduce the interest payable on the Convertible Notes to nil;

- The second tranche funding of \$5 million may not be made available to ChemGenex on the terms agreed in the Convertible Note Subscription Deed; and
- Cephalon will be entitled to redeem the Convertible Notes plus any capitalised interest at their discretion.

Table 9.3 below provides further information on the above points and discusses a number of other possible impacts on ChemGenex Shareholders if the Proposed Conversion is not approved.

**Table 9.3: Summary of Potential Impacts on ChemGenex Shareholders if the Proposed Conversion Is Not Approved**

Impact	Explanation
ChemGenex share price may fall	<ul style="list-style-type: none"> <li>We have provided an analysis of the ChemGenex share price in Section 6 which includes the movement in ChemGenex's share price since the announcement of the Proposed Conversion;</li> <li>The share price of ChemGenex increased following the announcement of the issue of the Convertible Notes, the Proposed Conversion and the Option Transactions. Specifically, it increased from \$0.435 on 21 October 2010 to \$0.505 on 22 October 2010 (the announcement date), an increase of 16.1%; and</li> <li>Given the above analysis, it is possible that the share price of ChemGenex may fall to pre-announcement levels or lower if the Proposed Conversion is not approved. For example, if Cephalon elects to redeem the first tranche following a rejection of the Proposed Conversion, the share price of ChemGenex may fall in response to a requirement of the Convertible Note Subscription Deed that it raise the required funding within 20 days to facilitate redemption.</li> </ul>
Cephalon may require redemption of the first tranche funding provided under the Convertible Note Subscription Deed	<ul style="list-style-type: none"> <li>As mentioned above, if the Proposed Conversion is not approved, Cephalon has the right to require redemption of the funding it provided to ChemGenex under the first tranche of the Convertible Note Subscription Deed;</li> <li>ChemGenex will be required to source funding of \$10 million plus any accrued interest and charges payable to repay Cephalon within 20 business days of Cephalon providing a notice of redemption; and</li> <li>It may not be possible for ChemGenex to raise adequate funding on acceptable terms to enable redemption of the first tranche within the required timeframe.</li> </ul>
Cephalon may, at its discretion, choose to provide funding of the second tranche of Convertible Notes and retain funding of the first tranche	<ul style="list-style-type: none"> <li>If the Proposed Conversion is not approved, Cephalon may, at its discretion, provide funding under the second tranche of \$5 million and retain the funding of \$10 million provided under the first tranche;</li> <li>Interest will accrue at 10% per annum; and</li> <li>The Convertible Notes will be convertible at the discretion of Cephalon without shareholder approval and without breaching the Act if its relevant interest in ChemGenex is not 20% or more or if Cephalon relies on an exception under the Act (such as the 3% in 6 months 'creep' exception) to exceed the 20% threshold. This may occur, for example, if Cephalon no longer has an interest in the options under the Option Transactions.</li> </ul>
ChemGenex Shareholders will not be diluted	<ul style="list-style-type: none"> <li>If the Proposed Conversion is not approved, ChemGenex Shareholders' interest will not be diluted unless: <ul style="list-style-type: none"> <li>the Company carries out other capital raisings, including capital raisings to facilitate the redemption of the Convertible Notes; and/or</li> <li>Cephalon uses its discretion to convert the Convertible Notes in the absence of shareholder approval without breaching the Act eg: following expiry of the Option Transactions or if Cephalon no longer has an interest in some or all of the options issued under the Option Transactions.</li> </ul> </li> </ul>



Impact	Explanation
Alternative funding may need to be obtained	<ul style="list-style-type: none"> <li>In order to continue to progress its development of Omacetaxine, significant debt/equity financing is likely to be required by ChemGenex in the future;</li> <li>If the Proposed Conversion is not approved, ChemGenex may be required to seek debt/equity funding for the completion of its Phase II / III trials for Omacetaxine from other sources in the event that Cephalon requires redemption of the Convertible Notes; and</li> <li>Assuming that Cephalon requires the redemption of the first tranche of funding, ChemGenex will be required to source at least \$15 million in funding, being the total value of the first and second tranches. If Cephalon does not require redemption of the first tranche funding, then ChemGenex will be required to source at least \$5 million in alternative funding (assuming that Cephalon does not subscribe for the second tranche of the Convertible Notes).</li> </ul>
The Charge may not be released	<ul style="list-style-type: none"> <li>If the Proposed Conversion is not approved, ChemGenex may be required to source alternative funding as discussed above. If alternative funding is unable to be sourced within a relatively short timeframe, the Company may not be able to meet the Data Collection Milestone within the timeline specified in the Convertible Note Subscription Agreement; and</li> <li>The Charge over the Company's assets may not be released unless there is no event of default and the Data Collection Milestone is met in accordance with the specified timeline. However, the Charge may be released if the Convertible Notes are repaid or converted.</li> </ul>
Interest accrual on amounts drawn	<ul style="list-style-type: none"> <li>If Cephalon does not elect to redeem the first tranche funding, ChemGenex will be required to pay interest at 10% per annum on the first tranche funding as well as any further funding that may be provided under the second tranche at the discretion of Cephalon; and</li> <li>Interest is payable quarterly and may be capitalised and added to the principal amount if Cephalon elects to capitalise accrued interest by giving a notice in accordance with the Convertible Note Subscription Deed. Upon receipt of the notice, ChemGenex can elect to capitalise or pay the accrued interest.</li> </ul>
Superior funding offer	<ul style="list-style-type: none"> <li>It is possible that ChemGenex may receive a superior funding offer to the Proposed Conversion although we understand that no superior funding offer has been received by ChemGenex as at the date of this Report; and</li> <li>The Company has recently received a funding proposal on less favourable terms. Further information is set out in Section 9.4.</li> </ul>
Costs incurred as a result of the Proposed Conversion	<ul style="list-style-type: none"> <li>If the Proposed Conversion is not approved, ChemGenex will not be able to recover the costs incurred in relation to the Proposed Conversion; and</li> <li>These costs may or may not be significant.</li> </ul>

## 9.4 Other Considerations

In this section, we discuss other relevant considerations in relation to the Proposed Conversion that ChemGenex Shareholders should have regard to prior to deciding whether to vote in favour of or against the Proposed Conversion.

In particular, we have considered issues including the following:

- The ability of ChemGenex to raise funds from equity and debt markets as an alternative to the Convertible Notes (refer to Section 9.4.1);
- Cephalon may not ultimately own more than 20% of the Company (refer to Section 9.4.2); and

- Certain benefits of the Proposed Conversion are only realised if the Data Collection Milestone is met (refer to Section 9.4.3).

### 9.4.1 ChemGenex's Ability to Raise Funds Through Alternative Means

ChemGenex's products are in Phase II/III trials. As set out Figure 5.3 of Section 5, it is estimated the probability of a biotechnology firm achieving product success at the Phase II/III trial stage is medium. We are informed that a significant level of funding is required to complete the current trials and to complete the Data Collection Milestone.

In order for ChemGenex to gain access to the funding required to progress the Omacetaxine trials and in the absence of the Convertible Notes, ChemGenex would likely need to raise funds from debt and/or equity markets (assuming Cephalon redeems the first tranche of the Convertible Notes and does not subscribe for the second tranche). The remainder of this section considers recent capital raisings of biotechnology companies and ChemGenex's ability to raise funds from the debt or equity markets.

#### a) Recent Capital Raisings of Biotechnology Companies

Table D.1 of Appendix D sets out the discount to trading prices offered in capital raisings by Australian biotechnology companies with a current market capitalisation of greater than \$50 million in the past 12 months. We note that this is not a comprehensive listing of all capital raisings. Further, the capital raisings relate to minority parcels of shares. Our observations in relation to this data include the following:

- The average discount to the observed trading prices immediately prior to the raisings of selected companies with a current market capitalisation of greater than \$50 million was approximately 20.8%; and
  - The average discount to the 1-month VWAP of selected companies with a current market capitalisation greater than \$50 million was approximately 13.4%.
- The conversion price offered under the Proposed Conversion of \$0.50 per share is not at a discount to the current share trading price of ChemGenex.

#### b) Funding from equity markets

We note the following matters in relation to possible funding from the equity markets:

- As noted in Section 8.4.1 above, ChemGenex raised approximately \$31.4 million in equity capital the 2009 financial year, with the majority of the issues carried out at a discount to its market trading prices within the range of 5.3% and 10.6%. It has not conducted any capital raising in the form of rights issues or placements in the last 12 months;
- Based on our analysis of the recent capital raisings conducted by comparable biotechnology companies in Appendix D (and discussed in Section 8.4.1 above), and notwithstanding that there is no recent evidence of capital raisings by ChemGenex, in our view, it is likely that ChemGenex would be required to offer a discount to its market trading price to raise funds from equity markets;
- We understand that the Company recently received an offer in the form of a term sheet for debt finance, which included the issuance of warrants, for a similar amount as that offered by

Cephalon under the Convertible Note Subscription Deed. We understand that the terms of the funding offer were substantially more onerous than those provided by the Convertible Note Subscription Deed; and

- We are informed that the Company has not received any other offers to subscribe for its shares at the current time.

Noting the recent volatility and uncertainty in capital markets, it is our view that it may be difficult for ChemGenex to raise the capital required at the current time without offering a discount to its market trading price.

#### c) Funding from debt markets

ChemGenex has not previously obtained substantial funding through debt.

As discussed in Section 5.2, investment in biotechnology companies such as ChemGenex is often regarded as speculative for reasons including the following:

- The share price volatility of biotechnology companies tends to be higher than the share price volatility of companies in many other sectors, as the share price of biotechnology companies can be heavily dependent on announcements made relating to the progress of a company's technology; and
- Value can be created or lost over very short periods of time as product development milestones are either met or missed by the company.

Due to current economic circumstances, the availability of debt, particularly for companies that are in the development and pre-commercialisation phase, has decreased significantly over the past 12 to 24 months. Having regard also to the speculative nature of an investment in ChemGenex, it is our view that ChemGenex would have difficulty obtaining the required funding through a direct debt raising without a conversion option or similar mechanism. Further it is our view that there are likely to be circumstances where it is not prudent for a pre-commercialisation stage biotechnology company to finance its operations using a debt instrument without the instrument allowing opportunities for the company to meet milestones and have the debt instrument converted to equity.

#### 9.4.2 Cephalon May Not Own More than 20% of the Company

As outlined in Section 3.1.2 of this Report, Cephalon may own up to 27.6% of the shares in ChemGenex following the Proposed Conversion. Based on our assessment of fairness of the Proposed Conversion in Section 8.5, the conversion price includes a control premium. However, it is possible that Cephalon may not own more than 20% of the shares in ChemGenex even if the Proposed Conversion is approved.

This could occur for a number of reasons including the following<sup>7</sup>:

<sup>7</sup> Also refer to Figure 3.1 where some of these scenarios are illustrated.

- Cephalon may not exercise its options acquired under the Option Transactions within the Option Period. We note that Cephalon has not indicated that it has any present intention to exercise the options acquired under the Option Transactions (although it may do so). Cephalon may therefore not acquire an interest in 19.9% of the shares in ChemGenex under the Option Transactions;
- Cephalon may elect to only partially exercise its options under the Option Transactions;
- Cephalon may continue to hold the Convertible Notes to maturity in circumstances where the Proposed Conversion is not approved or there is any other event of default and may require that the Convertible Notes be redeemed at maturity, earning interest at 10% per annum until that time. In this case, Cephalon will not acquire an interest in ChemGenex as a result of holding the Convertible Notes;
- If the Proposed Conversion is approved, there are no events of default and the Data Collection Milestone is met, ChemGenex does not require Cephalon to convert the Convertible Notes and Cephalon elects to hold the Convertible Notes until maturity, Cephalon will not acquire an interest in ChemGenex as a result of holding the Convertible Notes. We note, however, that under this scenario, Cephalon is unable to charge interest on the Convertible Notes;
- If Cephalon does not exercise its options under the Option Transactions and if it chooses to redeem the Convertible Notes at maturity, it may not hold any interest in ChemGenex under the Option Transactions or the Proposed Conversion;
- Cephalon may elect to redeem only part of the Convertible Notes and continue to hold the remaining Convertible Notes to maturity; and
- If ChemGenex carries out a capital raising, say for example, in the form of a placement following the Option Period, Cephalon's interest in ChemGenex may be diluted below 20% even if it has exercised the options under the Option Transactions and converted the Convertible Notes into ChemGenex shares.

As at the date of this Report, there is significant uncertainty relating to the way in which Cephalon and/or ChemGenex will deal with any decisions they are required to make in relation to the Convertible Note Deed or the Option Transaction. Accordingly it is not possible to provide a more definitive comment on whether or not the above outcomes will eventuate.

Notwithstanding that the conversion price of \$0.50 per ChemGenex share implies a control premium in the range of 11% (at the high end) to 35% (at the low end) compared to our valuation range of ChemGenex shares, at the date of this Report, there is significant uncertainty as to:

- Whether or not Cephalon will eventually acquire a significant and blocking stake in ChemGenex; and
- Whether or not Cephalon will eventually acquire a controlling interest in ChemGenex.

#### 9.4.3 Certain Benefits Tied to Data Collection Milestone

The benefits that may result in the future if the Proposed Conversion is approved are effectively also dependent upon the successful completion of the Data Collection Milestone. ChemGenex Shareholders should note that approval of the Proposed Conversion will not automatically result in the realisation of the benefits outlined below:

- The release of the fixed and floating charge over the assets of the Company, which is conditional upon the actual completion of the Data Collection Milestone within the specified timeline; and
- ChemGenex being given the right to convert the Convertible Notes, which is conditional upon the Conditions Subsequent being met, the actual completion of the Data Collection Milestone within the specified timeline and no event of default occurring.

The meeting of the Data Collection Milestone is outside of the control of ChemGenex Shareholders. We note, however, that ChemGenex management have stated that they are confident that ChemGenex will meet the Data Collection Milestone.

#### **9.5 Assessment of the Reasonableness of the Proposed Conversion**

In our opinion, after consideration of all issues including those set out above in this section of this Report, it is our view that, in the absence of a superior offer or any other information, the Proposed Conversion is **Reasonable**.

## **10.0 Sources of Information**

This Report is based on information from sources including the following:

- ChemGenex financial reports for the years ended 30 June 2009 and 2010;
- ChemGenex public announcements;
- Notice of Meeting and Explanatory Memorandum prepared by ChemGenex in connection with the Proposed Conversion;
- The Convertible Note Subscription Deed;
- The Fixed and Floating Charge Deed;
- The Option Agreements;
- Bloomberg;
- Aspect Huntley;
- Google Finance;
- Websites of ChemGenex and Cephalon;
- Broker reports;
- Discussions with ChemGenex management and their advisers; and
- Other publicly available research sources.

## 11.0 Indemnities, Representations & Warranties

ChemGenex has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

### 11.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, ChemGenex agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. ChemGenex will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

ChemGenex agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by ChemGenex (including but not limited to the Directors and advisers of ChemGenex) as part of this engagement.

ChemGenex has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

### 11.2 Representations & Warranties

ChemGenex recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by ChemGenex, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

## 12.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello has prepared this Report with the assistance of staff members. Mr Sorbello is a director of BDO CFQ and has extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to ChemGenex Shareholders in relation to the potential conversion of the Convertible Notes issued and proposed to be issued to Cephalon at \$0.50 per ordinary ChemGenex share. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Proposed Conversion, it is strongly recommended that ChemGenex Shareholders obtain their own taxation advice, tailored to their own particular circumstances.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 15 November 2010.

**BDO Corporate Finance (QLD) Ltd**



**Steven Sorbello**  
Director

## Appendix A - Overview of Valuation Methodologies

This appendix provides a summary of the key valuation methodologies considered in this Report.

### A.1 Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered, among other metrics, the valuation methodologies recommended by ASIC in Regulatory Guide 111 regarding contents of expert reports. These methodologies include those mentioned directly below.

#### A.1.1 Discounted Future Cash Flows ('DCF')

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

#### A.1.2 Capitalisation of Future Maintainable Earnings ('CME')

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the rate is an alternative way of stating the expected return on an asset, allowing for a risk premium over the risk free rate.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget.

Further, a CME is usually considered when relevant comparable information is available.

### A.1.3 Asset Based Valuations ('ABV')

Asset based valuations are used to estimate the market value of an entity based on the realised value of its identifiable net assets. The ABV approach ignores the possibility that an entity's value could exceed the realisable value of its net assets, however when used in conjunction with other methods which determine the value of an entity to be greater than the realisable value of its net assets, it is also possible to arrive at a reliable estimate of the value of goodwill.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

### A.1.4 Market Based Valuations ('MBV')

Market based valuations relate to the valuation of an entity, where its shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

## A.2 Industry Specific Metrics

It is often appropriate to have regard to industry specific valuation metrics in addition to the traditional valuation approaches outlined above. These metrics are particularly relevant in circumstances where it is reasonably common for market participants to have regard to the alternative measures of value.

For biotechnology companies predominantly in the research and development stage, it is common place for market analysts to have regard to multiples related to book value and research and development spend.

We have had regard to price to book value multiples in this Report.

## Appendix B - Valuation of ChemGenex

This appendix is set out as follows:

- Section B.1 sets out our view of the most appropriate methodology to value ChemGenex shares;
- Section B.2 sets out our calculation of a minority interest in the shares of ChemGenex adopting the Market Based Valuation methodology;
- Section B.3 considers the control premium that is appropriate for consideration in our assessment of the Proposed Conversion;
- Section B.4 compares the value of ChemGenex on a price/book value basis to several broadly comparable biotechnology companies; and
- Section B.5 sets out our opinion of the value per ChemGenex share adopted for the purposes of this Report.

### B.1 Valuation Methodology

Our view of the most appropriate valuation methodologies to apply to ChemGenex is set out in Table B.1 below. Further information about these methodologies is provided in Appendix A of this Report.

Table B.1: Summary of Valuation Methodologies for ChemGenex Shares

Valuation Methodology	Adopted	Explanation
DCF	x	We have been provided with forecast financial projections for ChemGenex. Based on our enquiries and discussions with ChemGenex management, in our view, the forecast financial information is not appropriate for the purposes of our assessment of fair value in this Report because the models rely on hypothetical assumptions about certain future events which are uncertain. In particular, the timeframe to commercialisation of the Company's flagship Omacetaxine product in the US and Europe is subject to uncertainty. In our view, it is appropriate to consider methodologies other than DCF for the purposes of our assessment in this Report.
CME	x	The current business activities of ChemGenex generate a net loss and negative operating cash flows which are reflective of the pre-revenue and commercialisation stage of ChemGenex's products. ChemGenex does not currently have maintainable earnings suitable for use in a CME valuation methodology.
ABV	x	The value of ChemGenex's key assets, including the goodwill and intellectual property associated with Omacetaxine, are recorded at their book values in the financial statements. An ABV generally provides a floor value for a company operating as a going concern.

In this Report, we have utilised the ABV in our Price/Book value cross-check.

Valuation Methodology	Adopted	Explanation
MBV	✓	The shares of ChemGenex are listed on the ASX. There is a readily observable market for the trading of shares in ChemGenex. We note that the MBV provides a valuation of ChemGenex shares on a minority interest basis.  There have been material capital raisings relating to the purchase of large parcels of shares in ChemGenex in 2009. In 2010, there were a number of smaller transactions relating to the exercise of options. Impending transactions that may potentially occur are the Option Transactions described in Section 3.4.3 of this Report. Information relating to these transactions is available and has been referred to in this Report.  In our view, the Market Based Valuation is relevant as the primary valuation method for the purposes of this Report.

For the reasons set out in Table B.1, it is our view that the most appropriate methodology to apply to value ChemGenex is the Market Based Valuation methodology. We have also cross checked our valuation with the Price/Book Value multiples of broadly comparable biotechnology companies.

### B.2 Market Based Valuation of ChemGenex

This section sets out our Market Based Valuation of ChemGenex ordinary shares by considering:

- The recent share market performance of ChemGenex ordinary shares;
- The liquidity of ChemGenex ordinary shares; and
- Recent and impending transactions relating to large parcels of ChemGenex ordinary shares.

#### B.2.1 Analysis of ChemGenex's Share Market Performance

ChemGenex's ordinary shares are listed on the ASX. The share price of ChemGenex on 21 October 2010 (the day before the public announcement of the Proposed Conversion) could, prima facie, be used as a proxy for the market value of ChemGenex ordinary shares on a minority interest basis for the purpose of assessing the Proposed Conversion. In our opinion, it is also appropriate to consider the ChemGenex share price over a longer period of time.

We have assessed the ChemGenex share price over different periods of time prior to 21 October 2010, being the date prior to the date of announcement of the Proposed Conversion and to 5 November 2010 being the most current price information. The share price data of ChemGenex over the 12 month period to 5 November 2010 and the accompanying relevant announcements are set out in detail in Section 6 of this Report.

An analysis of ChemGenex's VWAPs over the specified periods of time is set out in Table B.2 below.

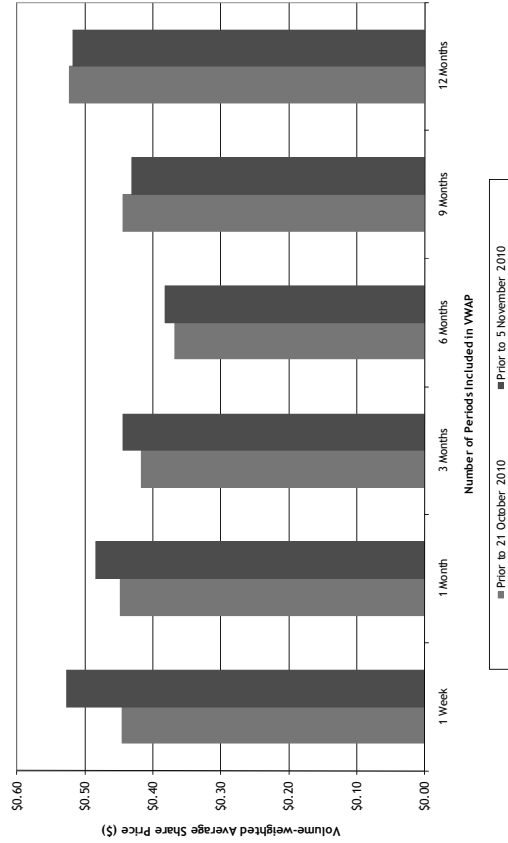
Table B.2: VWAPs Over Specified Periods of Time - ChemGenex Shares

Prior to 21 October 2010	\$	Prior to 5 November 2010	\$
1 Week	0.4456	1 Week	0.5263
1 Month	0.4480	1 Month	0.4838
3 Months	0.4168	3 Months	0.4441
6 Months	0.3676	6 Months	0.3825
9 Months	0.4440	9 Months	0.4316
12 Months	0.5230	12 Months	0.5181

Source: Bloomberg

The information set out in Table B.2 above is also expressed graphically in Figure B.1 directly below.

Figure B.1: VWAPs Over Specified Periods of Time - ChemGenex Shares



Source: Bloomberg

Table B.2 and Figure B.1 above show that for the periods prior to 21 October 2010, representing the period prior to the public announcement of the Proposed Conversion, the VWAP of ChemGenex shares moved between \$0.3676 and \$0.5230. The VWAPs for the period to 5 November 2010 are marginally higher.

The current share trading price of ChemGenex as at 5 November 2010 is \$0.50. This price is within the VWAP range above.

## B.2.2 Liquidity of ChemGenex Shares

Table B.3 below summarises the monthly liquidity of ChemGenex shares from 1 October 2009 to 21 October 2010 (being the date prior to the public announcement of the Proposed Conversion).

Table B.3: Liquidity of ChemGenex Shares

Month	Value of Trades (\$)	Volume of Shares Traded	VWAP (\$)	Number of Trades	Average Value per Trade (\$)	Average Volume of Shares per Trade
To 21 Oct-10	4,172,405	9,038,897	0.4616	1,480	2,819	6,107
Sep-10	1,279,602	3,544,475	0.3610	663	1,930	5,346
Aug-10	711,317	2,065,542	0.3444	376	1,892	5,493
Jul-10	2,237,534	6,636,511	0.3372	850	2,632	7,808
Jun-10	2,363,143	7,641,664	0.3092	843	2,803	9,065
May-10	2,289,158	6,782,595	0.3375	812	2,819	8,353
Apr-10	7,147,994	16,168,799	0.4421	1,869	3,825	8,651
Mar-10	49,257,741	118,566,297	0.4154	8,369	5,886	14,167
Feb-10	13,034,899	18,285,458	0.7129	3,151	4,137	5,803
Jan-10	6,652,782	7,013,451	0.9486	1,766	3,767	3,971
Dec-09	14,942,058	15,308,066	0.9761	3,663	4,079	4,179
Nov-09	13,219,111	14,398,857	0.9181	2,524	5,237	5,705
Oct-09	3,845,307	5,084,538	0.7563	734	5,239	6,927
<b>Total</b>	<b>121,153,053</b>	<b>230,535,150</b>	<b>0.5255</b>	<b>27,100</b>	<b>4,471</b>	<b>8,507</b>

Source: Bloomberg as at 27 October 2010.

(a) To 21 October 2010.

(b) The totals for the 'VWAP', 'Average Value per Trade' and 'Average Volume of Shares per Trade' columns are the overall averages of those columns.

Assuming a consistent number of 283,348,870 ordinary ChemGenex shares on issue, approximately 78.1% of the total ChemGenex shares were traded in the 12 months to 30 September 2010. We note that 50.9% of the share trades were carried out in the month of March 2010 following the Company's announcement in relation to issues surrounding the US FDA approval of Omacetaxine.

In our view, it is relevant to consider the entire period from October 2009 onwards in our assessment of the liquidity of ChemGenex shares for reasons including the following:

- The share trading of biotechnology company shares is generally concentrated around milestone announcements;
- The meeting or missing of milestones causes material movements in biotechnology company share prices; and
- To determine the overall liquidity of a biotechnology company's shares it is relevant to consider the trading carried out over a reasonable period of time including trading around milestone dates.

Given the above information, we would consider ChemGenex shares to exhibit a reasonable level of liquidity for reasons including the following:

- The shares appear to be regularly traded;

- The volume has been, for the most part, reasonably buoyant; and
- Apart from the trades over 2-3 days in March 2010, there are no single trade days/events that have significantly affected the market capitalisation of the Company.

We note for completeness, however, that the liquidity of ChemGenex shares in future may be materially different from its historical liquidity and may be impacted by a range of factors.

### B.2.3 Recent Significant Transactions in ChemGenex Shares

In the 2009 and 2010 financial years, ChemGenex has completed a number of equity raising issues which are outlined in Section 8.4.1 of this Report. The issues completed in the 2009 year were carried out at a price that was at a discount of approximately 5% to 11% to the market trading price of ChemGenex at the time. The issues completed in 2010 relate predominantly to the exercise of options.

The issues in the 2010 financial year have been completed at an average price of \$0.48 per share. We consider that these transactions relate to transactions of minority parcels of ChemGenex shares.

As at the date of this Report, ChemGenex has not announced any other capital raisings.

Section 6.3 also provides further analysis of the VWAP of ChemGenex over the 12-month period prior to 21 October 2010 and its ASX announcements over that period of time.

Based on our analysis, in our view it is appropriate to adopt a valuation of ChemGenex with reference to its 1-week to 6-month VWAP in the range of \$0.37 to \$0.45 per share on a minority interest basis.

### B.3 Control Premium

The Market Based Valuation methodology provides the value of each ChemGenex ordinary share on a minority interest basis. As outlined in Section 8.1, for the purposes of our assessment of the value of ChemGenex shares in this Report, it is appropriate to consider a control premium.

To form our view of an appropriate range of control premiums to apply to the market based valuation to calculate the value of each ChemGenex share including a control premium, we have considered the following information:

- Control premiums implied in recent merger and acquisition transactions in the biotechnology sector in Australia and overseas since 2006 as set out below:
  - The Australian transactions imply premiums in the range of 2.5% to 106% over the previous day's VWAP with an average of 45% and premiums in the range of 1% to 72% over the 1-month VWAP with an average of 39%; and
  - The overseas transactions imply premiums in the range of 0.35% to 305% over the previous day's VWAP with an average of 29%.
- Control premiums implied by unsuccessful deals or transactions that were not completed in Australia in the range of 3% to 48% over the 1 day and 1 month VWAPs;
- Premiums implied in transactions related to an investor building up a minority stake (excluding transactions involving placements, share issues, exercise of options, etc) averaged

- approximately 19% over the 1 month VWAP of the acquiree company's share price; and
- Recent independent expert's reports related to biotechnology companies in Australia concluded on control premiums in the range of 10% to 40%.

A summary of our analysis described above is set out in Table B.4 below.

Table B.4: Control Premiums Observed

	Range	Average
Comparable Transactions - Australia	10% to 40%	27.5%
Comparable Transactions - Global	0.35% to 305%	29.38%
Comparable Transaction - Australia (terminated)	3% to 48%	21.1%
Recent Biotechnology IERS	1% to 105%	22.67%
Minority Stake Acquisitions	(28%) - 116%	18.8%

Source: Bloomberg, Zephyr and MergerMarket

From Table B.4, we note there is a wide range of observed control premiums based on recent transactions in the biotechnology sector which may be based on a range of factors including those outlined below:

- Specific acquirer premium and/or special value that may be applicable to the acquirer;
- Level of ownership in the target company already held by the acquirer;
- Market speculation about any impending transactions involving the target and/or the sector that the target belongs to;
- The presence of competing bids; and
- General market sentiment and economic factors.

Based on the share price data of comparable biotechnology companies, it is our observation that market expectation generally starts to build into the share trading price of biotechnology companies as they begin to approach major milestones in the development and commercialisation process. On this basis, certain levels of control premium may already be included in the share price of ChemGenex in anticipation of the upcoming milestones of the Company being successfully met.

Having regard to the above information, it is our view that it is appropriate to consider a control premium within the range of 25% to 35% over the market based value of ChemGenex shares on a minority interest basis. Table B.5 sets out the application of a control premium to our assessed market based value of ChemGenex shares.

Table B.5: Market Based Value of ChemGenex Shares on a Controlling Interest Basis

	Low (\$)	High (\$)
Market based value (minority interest basis)	0.37	0.45
Add: Control premium	25%	35%
<b>Market based value (controlling interest basis)</b>	<b>0.463</b>	<b>0.608</b>



Accordingly, in our view, the Market Based Valuation methodology provides a value per ChemGenex share, including a premium for control in the range of \$0.463 to \$0.608.

As outlined in Section 6.2.2, ChemGenex has approximately 10.9 million listed options which are considered to be out of the money based on the Company's current market trading price. As outlined in Section 6.2.3, the Company also has approximately 18.5 million unlisted options on issue under its ESOP, of which approximately 5.8 million options may be considered to be in the money based on the current share price. We note that the options may be subject to a number of other unmet vesting conditions and that the market is aware of these options. For those reasons, we have not made any specific adjustment in our valuation relating to the options of ChemGenex.

#### B.4 Valuation Cross-Check

In this section, we have compared our valuation of each ChemGenex share with the price to book value multiples of comparable biotechnology companies. We have selected Australian biotechnology companies with net assets at the last reporting date of greater than \$20 million as broadly comparable.

The information set out in this section as a valuation cross-check should be considered a broad cross check only for a range of reasons including the following:

- The comparable companies selected are only broadly comparable and the operations and phase of development of those companies' products may not necessarily be directly or closely comparable to that of ChemGenex;
- The price to book value multiples derived from the trading data of comparable companies provide information about multiples related to a minority interest in those companies and the valuation of ChemGenex has been completed on a controlling interest basis. We have considered this matter in our analysis;
- The comparable companies may have different policies in relation to the capitalisation of their research and development costs, which may make it difficult to make a meaningful comparison between the net asset position of those companies;
- Certain comparable companies may have a higher level of impairment and accumulated losses compared to other companies; and
- The comparable companies may have different capital structures, including different debt levels. We have included a price to total asset multiple in our analysis to address this issue to some extent.

While we consider any conclusions drawn from the cross-checks to be informative, we are of the view that the information should be considered with caution.

Table B.6 summarises the results of the above analysis. The information supporting the analysis is presented in further detail in Appendix E.

Table B.6: Multiples Implied by Recent Transactions Involving Biotechnology Companies

Company	Price / Total Assets	Price / Net Assets
Alchemia Ltd	2.75	3.25
Avexa Ltd	1.30	1.35
Bionomics Ltd	2.88	3.56
Mesoblast Ltd	9.25	9.64
Pharmaxis Ltd	4.57	5.60
Solagran Ltd	1.66	1.86
Starpharma Holdings Ltd	4.08	4.40
<b>Average</b>	<b>3.78</b>	<b>4.24</b>
<b>High</b>	<b>9.25</b>	<b>9.64</b>
<b>Low</b>	<b>1.30</b>	<b>1.35</b>
<b>Average (excluding Mesoblast and Pharmaxis)</b>	<b>2.53</b>	<b>2.88</b>
<b>High (excluding Mesoblast and Pharmaxis)</b>	<b>4.08</b>	<b>4.40</b>
<b>Low (excluding Mesoblast and Pharmaxis)</b>	<b>1.30</b>	<b>1.35</b>

Source: Bloomberg

From Table B.6, we note that the price/net asset value multiples of comparable companies range from 1.35 to 9.64 times with an average of 4.24 and the price/total asset value multiples range from 1.30 to 9.25 times with an average of 3.78.

Of the above companies, Mesoblast Ltd ('Mesoblast') and Pharmaxis Ltd ('Pharmaxis') have the highest multiples. Mesoblast has recently been involved in the acquisition of Angioblast and has received approval to manufacture and distribute its adult stem cell products. Pharmaxis has already commercialised its Aridol product and is in the process of Phase III trials for its Bronchitol product. In our view, the above two companies are, on balance, less comparable to ChemGenex.

Excluding Mesoblast and Pharmaxis, the price/net asset multiples range from 1.35 to 4.40 times with an average of 2.88 times and the price/total assets multiples range from 1.30 to 4.08 times with an average of 2.53 times

We note that these multiples are calculated excluding a control premium as they are calculated using the companies' market trading price, which is generally indicative of a minority interest.

If considered on a controlling interest basis, by adopting the control premium range of 25% to 35% which we have used to calculate the value of ChemGenex shares on a controlling interest basis in Section B.3 above, then the multiple ranges would be as follows:

- Including Mesoblast and Pharmaxis, a price/total assets multiple including control premium ranging from 1.6 to 12.5 times and a price/net asset multiple including control premium ranging from 1.7 to 13.0 times; and
- Excluding Mesoblast and Pharmaxis, a price/total assets multiple including control premium ranging from 1.6 times to 5.5 times and a price/net assets multiple including control premium ranging from 1.7 times to 5.9 times.

The price/book value of ChemGenex implied by our market based valuation of ChemGenex including a control premium is set out in Table B.7 below.

**Table B.7: Price/Book Value Implied by ChemGenex Valuation**

	Low	High
Total Assets as at 30 June 2010 (from audited accounts) (\$000)	71,948	71,948
Net Assets at book value as at 30 June 2010 (from audited accounts) (\$ 000)	69,206	69,206
Number of shares currently on issue (in thousands)	283,349	283,349
Total Asset Value per Share	0.25	0.25
Net Asset Value per Share	0.24	0.24
Value per Share per Market Based Valuation Including Control Premium (Section B.3)	0.46	0.61
<b>Price / Total Assets Multiple</b>	<b>1.82</b>	<b>2.39</b>
<b>Price / Net Assets Multiple</b>	<b>1.90</b>	<b>2.49</b>

Source: ChemGenex 2010 Annual Report and BDO CFQ Analysis

Based on Table B.7, the price/total assets value multiple implied by our valuation of ChemGenex is in the range of 1.82 to 2.39 times and the price/net asset value multiple is in the range of 1.90 to 2.49 times.

We note that the price/total assets and price/net asset multiples which we have calculated for ChemGenex are generally lower than the average multiples implied by those of the comparable companies above including a control premium. The differences between the multiples may be for a range of reasons including those we have outlined above in this section.

Notwithstanding this, the multiples implied by our valuation are within the range of the multiples calculated for the comparable companies.

### **B.5 Value of a ChemGenex Ordinary Share Used to Assess the Proposed Conversion**

In our view, it is appropriate to adopt a value within the range of \$0.463 to \$0.608 per ChemGenex share on a controlling interest basis for the purpose of our assessment of the Proposed Conversion. Our view was formed having regard to the following:

- We were not provided with and were unable to obtain any forecast financial information or projections for ChemGenex which were appropriate for use in an assessment of the fair market value of ChemGenex at the current time. As a result, we have not applied a DCF valuation methodology;
- An ABV would generally provide a floor value of a company operating as a going concern. We have utilised Price / Book value multiples as a cross-check to our valuation;
- ChemGenex does not generate and report maintainable earnings suitable for use in a CME valuation methodology; and
- The information available to us in relation to ChemGenex's share market trading and recent significant transactions.

ChemGenex Shareholders should refer to Section B.1 for a more detailed discussion of the valuation methodology we have chosen to value ordinary ChemGenex shares on a controlling interest basis for the purpose of this Report.

## Appendix C - Key Terms of the Convertible Note Subscription Deed

### C.1 Key Terms of the Convertible Note Subscription Deed

Table C.1 below sets out the key terms of the Convertible Note Subscription Deed.

Term	Description
Subscription	<p>Cephalon must subscribe for the Convertible Notes comprising of up to \$15 million to be issued in two separate tranches as follows:</p> <p>(a) The first tranche of \$10 million was drawn down on 26 October 2010; and</p> <p>(b) The second tranche of \$5 million will be drawn down within two business days of the Conditions Subsequent described below being satisfied.</p>
Conditions Subsequent	<p>Cephalon's obligation to subscribe for the second tranche of the Convertible Notes is conditional on:</p> <p>(a) Chemgenex obtaining shareholder approval under item 7 of section 611 of the Act by 31 December 2010 in order to allow Cephalon to immediately convert both the first and second tranches of notes to ChemGenex shares; and</p> <p>(b) No event of default occurring prior to such approval being obtained.</p> <p>These conditions are referred to as the 'Conditions Subsequent' in this Report.</p> <p>If the Conditions Subsequent are not satisfied, Cephalon will be entitled to redeem the Convertible Notes, and if not redeemed, they will earn interest. ChemGenex does not have a right to repay the Convertible Notes.</p> <p>If the Conditions Subsequent are satisfied, the Convertible Notes will not incur interest.</p>
Shareholder Approval	<p>ChemGenex must use its best endeavours to:</p> <p>(a) Dispatch a notice of meeting seeking shareholder approval under item 7 of section 611 by 30 November 2010; and</p> <p>(b) Obtain shareholder approval for the Proposed Conversion by 31 December 2010.</p> <p>We understand that major shareholders of ChemGenex, who in aggregate hold a total of 44.4% of ChemGenex shares, have indicated that they support and intend to vote in favour of the Proposed Conversion.</p>
Data Collection Milestone	<p>ChemGenex must use reasonable endeavours to comply with a specified timeline in respect of the collection of patient data necessary to progress the planned NDA submission to the US FDA for its drug Omacetaxine for the treatment of CML patients who have failed two or more approved TKIs. This timeline provides for the completion of the necessary collection of patient data by 31 March 2011.</p> <p>If the Conditions Subsequent are satisfied, the Data Collection Milestone is achieved and there is no event of default, ChemGenex will have the right to convert the Convertible Notes into ChemGenex shares. The Charge held by Cephalon over the assets of ChemGenex will be released after the Data Collection Milestone is achieved (refer to Appendix C.2 below for information regarding the Charge).</p>
Conversion Price	<p>The Convertible Notes are convertible to ChemGenex shares at a conversion price of \$0.50 per share. However, the conversion price may be adjusted as described below.</p>
Adjustments to Conversion Price	<p>The conversion price is subject to adjustment in accordance with the Convertible Note Subscription Deed. The adjustments generally relate to certain changes in the capital structure of ChemGenex over the term of the Convertible Notes.</p>

Term	Description
Conversion	<p>Cephalon may convert the Convertible Notes to ChemGenex shares provided that it is able to do so without contravening the Act.</p> <p>ChemGenex will have the right to convert the Convertible Notes into ChemGenex shares where:</p> <p>(a) The Conditions Subsequent are satisfied;</p> <p>(b) The Data Collection Milestone has been achieved in accordance with the timeline; and</p> <p>(c) No event of default has occurred following the issue of the second tranche.</p>
Redemption	<p>Cephalon will be entitled to redeem the Convertible Notes where:</p> <p>(a) The Conditions Subsequent are not satisfied; or</p> <p>(b) An event of default occurs prior to conversion.</p> <p>Cephalon must give at least 20 business days notice of such redemption to give ChemGenex an opportunity to raise the necessary funds.</p>
Events of Default	<p>Key events of default are as follows:</p> <p>(a) ChemGenex fails to use reasonable endeavours to meet the Data Collection Milestone;</p> <p>(b) An insolvency event occurs in relation to ChemGenex;</p> <p>(c) There is any change in the business, assets or circumstances of ChemGenex which is likely to have a material adverse effect; and</p> <p>(d) ChemGenex fails to comply with a material provision of the Convertible Note Subscription Deed.</p> <p>A material adverse effect is defined as a material adverse effect on the financial condition of ChemGenex or its ability to meet its payment and other obligations under the Convertible Note Subscription Deed, other than an effect which occurs for reasons outside ChemGenex's control.</p>
Disclosure Requirements	<p>To ensure that Cephalon can sell shares it receives on conversion, ChemGenex will be obliged to either:</p> <p>(a) Issue a cleansing notice under section 708A of the Act upon issue of the ChemGenex shares following conversion; or</p> <p>(b) If it is not able to issue a cleansing notice, issue a disclosure document as soon as practicable thereafter.</p>
Reconstructions and New Issues	<p>Cephalon will have customary protections in relation to any reconstruction of ChemGenex's issued capital prior to conversion.</p> <p>ChemGenex must not issue new shares during the Option Period without Cephalon's consent except where:</p> <p>(a) The Conditions Subsequent have not been satisfied and Cephalon has not subscribed for the second tranche; or</p> <p>(b) Cephalon has given notice of the redemption of the Convertible Notes.</p>
Interest and Fees	<p>Where interest is payable on the Convertible Notes, it will be at a rate of 10% per annum. Cephalon may elect to capitalise the interest.</p> <p>There are no fees or expenses payable in connection with the establishment of the Convertible Notes.</p>
Representations and Warranties	<p>ChemGenex has given warranties to Cephalon including that:</p> <p>(a) It does not foresee the need for additional funding during the Option Period;</p> <p>(b) To the best of its knowledge, all information that it has provided to Cephalon is true and correct;</p> <p>(c) It has complied with its continuous disclosure obligations;</p> <p>(d) It is not aware of any litigation which may have a material adverse effect; and</p> <p>(e) Other customary warranties.</p>
Term	<p>The term of the Convertible Notes is 3 years from the date the first tranche of the Convertible Notes was issued.</p>

Source: Convertible Note Subscription Deed

## Appendix D - Capital Raisings

Table D.1 sets out information regarding recent capital raisings completed by Australian biotechnology companies with a market capitalisation of greater than \$50 million and which are considered broadly comparable to ChemGenex.

**Table D.1: Capital Raisings Information for Comparable Companies with a Market Capitalisation of Greater than \$50 Million**

Comparable Company Name - Type of Raising	Date First Announced	Current Market Cap <sup>(1)</sup> (\$m)	Current Number of Share on Issue <sup>(1)</sup> (m)	No. Of Shares Issued (m)	Value of Issue (\$m)	Issue Price (\$)	Closing Price Previous Trading Day (\$)	1 Month VWAP (\$)	Premium / (Discount) to Closing Price Previous Day (%)	Premium / (Discount) to 1 Month VWAP (\$)
Tissue Therapies Ltd - Rights Issue	28-Jan-09	55.28	138.20	15.63	1.88	0.120	0.156	0.144	(23.1%)	(16.9%)
Tissue Therapies Ltd - Placement	19-Oct-09	55.28	138.20	33.33	5.00	0.150	0.205	0.194	(26.8%)	(22.6%)
Tissue Therapies Ltd - Share Purchase Plan	21-Oct-09	55.28	138.20	23.44	2.78	0.118	0.200	0.197	(40.8%)	(40.0%)
QRxPharma Ltd - Placement	11-Nov-09	94.65	106.35	10.00	8.00	0.800	1.138	1.073	(29.7%)	(25.5%)
QRxPharma Ltd - Rights Issue	11-Nov-09	94.65	106.35	17.00	13.60	0.800	1.138	1.073	(29.7%)	(25.5%)
QRxPharma Ltd - Placement	01-Oct-10	94.65	106.35	3.87	3.29	0.850	1.000	0.935	(15.0%)	(9.1%)
Alchemia Ltd - Rights Issue	25-Nov-09	102.25	191.12	29.27	15.51	0.530	0.700	0.641	(24.3%)	(17.4%)
Prima Biomed Ltd - Placement	28-Apr-09	109.33	728.87	57.69	1.50	0.026	0.073	0.061	(64.4%)	(57.7%)
Prima Biomed Ltd - Share Purchase Plan	28-Apr-09	109.33	728.87	2.36	0.16	0.070	0.073	0.061	(4.1%)	14.0%
Prima Biomed Ltd - Share Purchase Plan	16-Oct-09	109.33	728.87	98.00	13.72	0.140	0.175	0.187	(20.0%)	(25.2%)
Starpharma Holdings Ltd - Placement	07-Apr-09	153.23	239.42	11.85	3.08	0.260	0.300	0.231	(13.3%)	12.3%
Starpharma Holdings Ltd - Placement	07-Apr-09	153.23	239.42	8.00	2.08	0.260	0.300	0.231	(13.3%)	12.3%

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### C.2 Key Terms of the Charge

The key terms of the Charge held by Cephalon over the assets of ChemGenex are set out in Table C.2 below.

**Table C.2: Key Terms of the Charge**

Term	Description
Structure	The Charge will: (a) Operate as a fixed charge over defined fixed charge property, and a floating charge over all other property of ChemGenex; and (b) Secure ChemGenex's obligations under the Convertible Note Subscription Deed.
Fixed Charge Property	The definition of fixed charge property is broad and includes all real property, plant machinery and equipment, intellectual property, marketable securities, debts, insurance benefits and documents.
Negative Pledge	ChemGenex must not create or permit the creation of any security interest in its property whilst the Charge is in effect.
Registration	The Charge has been registered with ASIC.
Stamp Duty	ChemGenex will be obliged to stamp the Charge in each jurisdiction where it holds property and where stamping is required. ChemGenex does not anticipate that any stamp duty is payable in respect of the Charge.
Secured Property	ChemGenex will have an obligation to maintain all property secured by the Charge.
Enforcement	The Charge will become enforceable where an event of default occurs under the Convertible Note Subscription Deed and Cephalon elects to redeem the Convertible Notes.  If the Charge becomes enforceable, Cephalon will be entitled to appoint a receiver to ChemGenex who will have broad powers to deal with ChemGenex's business and assets.

Source: Fixed and Floating Charge Deed

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## Appendix E - Price to Book Value Analysis

Table E.1 sets out information on the price to book value multiples of Australian biotechnology companies with net assets of greater than \$20 million and considered broadly comparable to ChemGenex.

Table E.1: Price to Book Value Multiples for Comparable Companies with Net Assets Greater than \$20 Million

Company Name	Current Share Price <sup>(a)</sup> (\$)	Total Assets as at 30 June 2010 (\$m)	Net Assets as at 30 June 2010 (\$m)	Shares Outstanding (m)	Total Assets Per Share (\$)	Net Assets Per Share (\$)	Price to Book Value Multiple (Total Assets)	Price to Book Value Multiple (Net Assets)
Alchemia Ltd	0.535	37.2	31.5	191.1	0.19	0.16	2.75	3.25
Avexa Ltd	0.039	25.5	24.4	847.7	0.03	0.03	1.30	1.35
Bionomics Ltd	0.285	31.5	25.5	318.4	0.10	0.08	2.88	3.56
Mesoblast Ltd	2.310	39.5	37.9	158.1	0.25	0.24	9.25	9.64
Pharmaxis Ltd	2.850	140.8	115.0	225.8	0.62	0.51	4.57	5.60
Solagran Ltd	0.130	23.3	20.9	297.8	0.08	0.07	1.66	1.86
Starpharma Holdings Ltd	0.640	37.6	34.8	239.4	0.16	0.15	4.08	4.40
<b>Average</b>							<b>3.78</b>	<b>4.24</b>
<b>Median</b>							<b>2.88</b>	<b>3.56</b>

Source: Bloomberg, Aspect Huntley and BDO CFQ Analysis

(a) As at 22 October 2010.

Comparable Company Name - Type of Raising	Date First Announced	Current Market Cap <sup>(a)</sup> (\$m)	Current Number of Share on Issue <sup>(a)</sup> (m)	No. Of Shares Issued (m)	Value of Issue (\$m)	Issue Price (\$)	Closing Price Previous Trading Day (\$)	1 Month VWAP (\$)	Premium / (Discount) to Closing Price Previous Day (%)	Premium / (Discount) to 1 Month VWAP (\$)
Starpharma Holdings Ltd - Share Purchase Plan	07-Apr-09	153.23	239.42	7.65	1.99	0.260	0.300	0.231	(13.3%)	12.3%
Starpharma Holdings Ltd - Placement	18-Nov-09	153.23	239.42	30.00	15.60	0.520	0.600	0.576	(13.3%)	(9.7%)
Mesoblast Ltd - Placement	30-Mar-09	365.30	158.14	15.02	10.81	0.720	0.800	0.770	(10.0%)	(6.5%)
Mesoblast Ltd - Placement	12-May-10	365.30	158.14	14.02	23.83	1.700	1.935	2.046	(12.1%)	(16.9%)
Pharmaxis Ltd - Placement	04-Jun-09	643.43	225.77	20.00	47.00	2.350	2.630	2.592	(10.6%)	(9.3%)
Pharmaxis Ltd - Share Purchase Plan	04-Jun-09	643.43	225.77	3.07	7.21	2.350	2.630	2.592	(10.6%)	(9.3%)
<b>Average</b>									<b>(20.8%)</b>	<b>(13.4%)</b>
<b>Median</b>									<b>(14.2%)</b>	<b>(13.3%)</b>

Source: Bloomberg, Aspect Huntley and BDO CFQ Analysis

(a) As at 1 November 2010.

Company	Bloomberg Description	Main Products	Phase
Pharmaxis Ltd	Pharmaxis Ltd. is a pharmaceutical company which develops therapeutic products for the human chronic respiratory and autoimmune diseases. The Company operates in Australia.	<ul style="list-style-type: none"> <li>Aridol</li> <li>Bronchitol</li> </ul>	<ul style="list-style-type: none"> <li>Aridol registered for sale in Australia, Europe and South East Asia and has marketing approval from the US FDA</li> <li>Phase III</li> </ul>
Prima Biomed Ltd	Prima Biomed Ltd is an Australian biotechnology company with a portfolio of products focused in the therapeutic area of cancer.	<ul style="list-style-type: none"> <li>Cvac</li> <li>Cripto-1 Antibody</li> <li>HPV Vaccine</li> </ul>	<ul style="list-style-type: none"> <li>Phase IIb</li> <li>Development</li> <li>Discovery</li> </ul>
QRxPharma Ltd	QRxPharma Limited is a specialty pharmaceutical company developing and commercialising pain therapy products. The Company's preclinical and clinical pipeline includes other technologies in the fields of neurodegenerative disease and venomics.	<ul style="list-style-type: none"> <li>MoxDuo IR</li> <li>MoxDuo IV</li> <li>MocDuo CR</li> <li>Lead Compound - (Dystonia)</li> <li>Lead Compound - (Parkinson's)</li> <li>Haempatch</li> <li>Textilinin</li> </ul>	<ul style="list-style-type: none"> <li>Phase 3</li> <li>Phase 2</li> <li>Phase 1</li> <li>Pre Clinical</li> <li>Pre Clinical</li> <li>Pre Clinical</li> <li>Pre Clinical</li> </ul>
Solagran Ltd	Solagran Limited is a biotechnology company that develops and commercialises naturally biological active substances called Bioeffectives which are used for the prevention of disease, treatment of illness and promotion of health.	<ul style="list-style-type: none"> <li>Bioeffectives</li> </ul>	<ul style="list-style-type: none"> <li>Some products registered in Russia</li> </ul>
Starpharma Holdings Ltd	Starpharma Holdings Limited is biotechnology company involved in the research, development and commercialization of dendrimer-based nanotechnologies. The Company's primary development product is VivaGel, a microbicide gel for women used for the prevention of HIV.	<ul style="list-style-type: none"> <li>VivaGel</li> </ul>	<ul style="list-style-type: none"> <li>Phase II</li> </ul>
Tissue Therapies Ltd	Tissue Therapies Limited is a biomedical company that develops and commercializes the VitroGro technology used in the regeneration of tissue and the promotion of accelerated wound healing for such afflictions as burns, ulcers and various medical procedures.	<ul style="list-style-type: none"> <li>VitroGro</li> </ul>	<ul style="list-style-type: none"> <li>N/a - classified as a device - small clinical trial only required</li> </ul>

Source: Bloomberg, Aspect Huntley and Company Websites

## Appendix F - Company Descriptions

Table F.1 sets out a description for each company included in the capital raisings and / or price to book value multiple analysis set out in this Report.

Table F.1: Descriptions of Companies Included in Capital Raisings and Price to Book Value Multiple Analysis

Company	Bloomberg Description	Main Products	Phase
Alchemia Ltd	Alchemia Limited is a biotechnology company that develops carbohydrate based molecules for pharmaceutical applications. The Company's products are used in drug development in the field of antibiotics and anti-cancer drugs.	<ul style="list-style-type: none"> <li>Generic fondaparinux</li> <li>HA-irinotecan</li> <li>HyACT® antibodies</li> <li>VAST® various</li> </ul>	<ul style="list-style-type: none"> <li>ANDA filed and accepted</li> <li>Clinical - Ph II IND accepted by the US FDA</li> <li>Pre Clinical</li> <li>Discovery</li> </ul>
Avexa Ltd	Avexa Limited is a pharmaceutical company focused on the research and development of anti-infective drugs for such diseases as HIV, Hepatitis B, and vancomycin resistant bacterial infections.	<ul style="list-style-type: none"> <li>Apricitabine (ATC)</li> <li>HIV Integrase</li> <li>Hepatitis C Virus (HCV) Polymerase</li> <li>Antibiotic Resistant Infections</li> </ul>	<ul style="list-style-type: none"> <li>Phase IIb completed</li> <li>Pre Clinical</li> <li>Phase I</li> <li>Discovery</li> </ul>
Bionomics Ltd	Bionomics Limited operates as a biotechnology company, which specializes in the genetics field. The Company, which is affiliated with a number of research institutions, seeks to develop a variety of genomic, genetic, molecular and cell biology techniques, which they believe will help demonstrate the onset and progression of diseases like epilepsy and breast cancer.	<ul style="list-style-type: none"> <li>BNC105</li> <li>BNO69</li> <li>Kv1.3 Blockers for Inflammatory Disorders</li> <li>MultiCore</li> <li>Angene</li> <li>IonX</li> <li>BNC210</li> </ul>	<ul style="list-style-type: none"> <li>Discovery</li> <li>Discovery</li> <li>Discovery</li> <li>Discovery</li> <li>Discovery</li> <li>Discovery</li> <li>Discovery</li> </ul>
Mesoblast Ltd	Mesoblast Limited is an Australian biotechnology company that develops adult stem cell technologies for orthopaedic applications. The Company's technologies have shown promising results in the regeneration of bone and cartilage.	<ul style="list-style-type: none"> <li>Bone Marrow Transplantation</li> <li>Congestive Heart Failure</li> <li>Spinal Fusion</li> <li>Knee Osteoarthritis</li> <li>Long Bone Fracture Repair</li> <li>Acute Myocardial Infraction</li> <li>Intervertebral Disc Repair</li> <li>Eye Diseases (AMD)</li> <li>Diabetes</li> </ul>	<ul style="list-style-type: none"> <li>Phase II</li> <li>Phase II</li> <li>Phase II</li> <li>Phase II</li> <li>Phase II</li> <li>Phase II</li> <li>Pre Clinical</li> <li>Pre Clinical</li> <li>Pre Clinical</li> </ul>