

## Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of the ordinary shareholders of Pharmaxis Ltd ABN 75 082 811 630 (**Company**) will be held at the Sheraton on the Park, 161 Elizabeth Street, Sydney NSW on 26 October 2006 at 2:30 pm.

### **ORDINARY BUSINESS:**

#### **1. Financial Statements**

*To receive and consider the financial report, directors' report, directors' declarations and the auditors' report of the Company for the financial year ended 30 June 2006.*

#### **2. Remuneration Report**

To consider and, if thought fit, to pass item 2 as an ordinary resolution:

*That the remuneration report of the Company for the year ended 30 June 2006 be adopted and approved.*

#### **3. Re-election of Dr Peter Farrell as a Director**

To consider and, if thought fit, to pass item 3 as an ordinary resolution:

*That Dr Peter Farrell be re-elected as a director of the Company.*

#### **4. Re-election of Mr Denis Hanley as a Director**

To consider and, if thought fit, to pass item 4 as an ordinary resolution:

*That Mr Denis Hanley be re-elected as a director of the Company.*

### **SPECIAL BUSINESS**

#### **5. Remuneration of Non Executive Directors**

To consider and, if thought fit, to pass item 5 as an ordinary resolution:

*That, with effect from 1 July 2006, the maximum aggregate annual amount out of which non executive directors fees may be paid is increased by A\$300,000 from A\$300,000 to A\$600,000 per annum, to be divided amongst the non executive directors in accordance with the constitution of the Company in such proportion and in such manner as the directors determine.*

### **GRANTS OF OPTONS TO DIRECTORS**

Items 6 to 10 relate to approval of:

- options granted by the Board to directors, subject to shareholder approval, in the 12 months *before* the annual general meeting; and
- options that may be granted by the Board to directors in the 12 months *after* the annual general meeting following shareholder approval.

## **6. Grant of Options to Dr Peter Farrell**

To consider and, if thought fit, to pass items 6(a), 6(b) and 6(c) as separate ordinary resolutions.

*That approval is given for:*

- a) *the grant of 200,000 options to Dr Peter Farrell under the employee option plan of the Company (**Employee Option Plan**), resolved to be granted by the Board on 16 March 2006 and, upon exercise of those options, the acquisition of the ordinary shares underlying those options;*
- b) *the grant of 20,000 options to Dr Peter Farrell under the Employee Option Plan, resolved to be granted by the Board on 8 August 2006 and, upon exercise of those options, the acquisition of the ordinary shares underlying those options; and*
- c) *the participation by Dr Peter Farrell in the Employee Option Plan for a period of 12 months from the date of this annual general meeting and the grant of up to 20,000 options to Dr Peter Farrell under the Employee Option Plan during the period 12 months after the date of this annual general meeting and, upon exercise of those options, the acquisition of the ordinary shares underlying those options,*

*all in accordance with the terms of the Employee Option Plan and in the manner contemplated by the explanatory statement accompanying this notice of meeting.*

## **7. Grant of Options to Mr Denis Hanley**

To consider and, if thought fit, to pass items 7(a) and 7(b) as separate ordinary resolutions.

*That approval is given for:*

- a) *the grant of 40,000 options to Mr Denis Hanley under the Employee Option Plan, resolved to be granted by the Board on 8 August 2006 and, upon exercise of those options, the acquisition of the ordinary shares underlying those options; and*
- b) *the participation by Mr Denis Hanley in the Employee Option Plan for a period of 12 months from the date of this annual general meeting and the grant of up to 40,000 options to Mr Denis Hanley under the Employee Option Plan during the period 12 months after the date of this annual general meeting and, upon exercise of those options, the acquisition of the ordinary shares underlying those options,*

*all in accordance with the terms of the Employee Option Plan and in the manner contemplated by the explanatory statement accompanying this notice of meeting.*

## **8. Grant of Options to Mr Charles Kiefel**

To consider and, if thought fit, to pass items 8(a) and 8(b) as separate ordinary resolutions.

*That approval is given for:*

- a) *the grant of 48,957 options to Mr Charles Kiefel under the Employee Option Plan, resolved to be granted by the Board on 8 August 2006 and, upon exercise of those options, the acquisition of the ordinary shares underlying those options; and*
- b) *the participation by Mr Charles Kiefel in the Employee Option Plan for a period of 12 months from the date of this annual general meeting and the grant of up to 50,000 options to Mr Charles Kiefel under the Employee Option Plan during the period 12 months after the date of this annual general meeting and, upon exercise of those options, the acquisition of the ordinary shares underlying those options,*

*all in accordance with the terms of the Employee Option Plan and in the manner contemplated by the explanatory statement accompanying this notice of meeting.*

#### **9. Grant of Options to Mr Malcolm McComas**

To consider and, if thought fit, to pass items 9(a) and 9(b) as ordinary resolutions.

*That approval is given for:*

- a) *the grant of 20,000 options to Mr Malcolm McComas under the Employee Option Plan, resolved to be granted by the Board on 8 August 2006 and, upon exercise of those options, the acquisition of the ordinary shares underlying those options; and*
- b) *the participation by Mr Malcolm McComas in the Employee Option Plan for a period of 12 months from the date of this annual general meeting and the grant of up to 20,000 options to Mr Malcolm McComas under the Employee Option Plan during the period 12 months after the date of this annual general meeting and, upon exercise of those options, the acquisition of the ordinary shares underlying those options,*

*all in accordance with the terms of the Employee Option Plan and in the manner contemplated by the explanatory statement accompanying this notice of meeting.*

#### **10. Grant of Options to Dr Alan Robertson**

To consider and, if thought fit, to pass item 10(a) and 10(b) as ordinary resolutions.

*That approval is given for:*

- a) *the grant of 150,000 options to Dr Alan Robertson under the Employee Option Plan, resolved to be granted by the Board on 8 August 2006 and, upon exercise of those options, the acquisition of the ordinary shares underlying those options; and*
- b) *the participation by Dr Alan Robertson in the Employee Option Plan for a period of 12 months from the date of this annual general meeting and the grant of up to 150,000 options to Dr Alan Robertson under the Employee Option Plan during the period 12 months after the date of this annual general meeting and, upon exercise of those options, the acquisition of the ordinary shares underlying those options,*

*all in accordance with the terms of the Employee Option Plan and in the manner contemplated by the explanatory statement accompanying this notice of meeting.*

#### **11. Renewal of Proportional Takeover Provision in the Constitution of the Company**

To consider and, if thought fit, to pass item 11 as a special resolution:

*That the proportional takeover provision contained in article 45 of the current constitution of the Company be renewed for a further three years from the date of this annual general meeting.*

#### **OTHER BUSINESS**

To deal with any other business that may be brought forward in accordance with the constitution of the Company and the Corporations Act 2001 (Cth).

## **VOTING RESTRICTIONS**

### **Voting Restrictions Applicable to Resolution Set Out In Item 5**

As required by the ASX Listing Rules, the Company will disregard any votes cast on the proposed resolution set out in item 5 by any director of the Company or by any of their associates.

However the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

### **Voting Restrictions Applicable to Resolutions Set Out In Items 6 to 10**

As required by the ASX Listing Rules, the Company will disregard any votes cast on the resolutions set out in items 6 to 10 by:

- any director of the Company (except a director who is ineligible to participate in the Employee Option Plan) and, if Australian Stock Exchange has expressed an opinion under rule 10.14.3 that approval is required for participation in the Employee Option Plan by anyone else, that person; and
- any of their associates.

However the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

### **By order of the Board**

**Mr David McGarvey**

Company Secretary and Chief Financial Officer

**25 September 2006**

## **VOTING ENTITLEMENTS**

For the purpose of the Corporations Act 2001 (Cth), the Company has determined that the holders of the Company's ordinary shares for the purpose of the annual general meeting, will be the registered holders of ordinary shares at 7:00 pm Australian Eastern Standard Time on 24 October 2006.

This notice is also being sent to The Bank of New York as depositary agent of the Company's American Depositary Shares (**ADS**). Holders of ADSs are invited to attend the annual general meeting but are not entitled to vote on any of the proposed resolutions. However, holders of ADSs may, subject to the terms of the depositary agreement between The Bank of New York and the holders of the ADSs, instruct The Bank of New York to vote the ordinary shares underlying their ADSs on their behalf.

## **PROXIES**

Ordinary shareholders have the right to appoint a proxy, who need not be an ordinary shareholder of the Company. If an ordinary shareholder is entitled to two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise. A Proxy Form has been included for ordinary shareholders with this notice of meeting. Proxy voting instructions are provided with the Proxy Form. The Proxy Form must

be received by the share registry of the Company, Computershare Investor Services Pty Limited, located at Level 2, 60 Carrington Street, Sydney NSW 2000 or at the Company's Registered Office, Unit 2, 10 Rodborough Road, Frenchs Forest NSW 2086, or by facsimile to Computershare on (02) 8235 8220 or to the Company on (02) 9451 3622 by no later than 2:30 pm Australian Eastern Standard Time on 24 October 2006.

#### **POWER OF ATTORNEY**

If an ordinary shareholder has appointed an attorney to attend and vote at the meeting, or if a Proxy Form is signed by an attorney, the power of attorney must likewise be received by the share registry of the Company, Computershare Investor Services Pty Limited, located at Level 2, 60 Carrington Street, Sydney NSW 2000 or at the Company's Registered Office, Unit 2, 10 Rodborough Road, Frenchs Forest NSW 2086, or by facsimile to Computershare on (02) 8235 8220 or to the Company on (02) 9451 3622 by no later than 2:30 pm Australian Eastern Standard Time on 24 October 2006.

#### **CORPORATE REPRESENTATIVES**

If an ordinary shareholder wishes to appoint a person to act as a representative at the meeting, that person should be provided with a letter authorising that person as the company's representative (executed in accordance with that company's constituent documents).

## EXPLANATORY STATEMENT

### Item 1 - Financial Statements

In accordance with section 317 of the Corporations Act 2001 (Cth) (**Corporations Act**), the financial report, directors' report, directors' declarations and the auditors' report of the Company for the financial year ended 30 June 2006 will be laid before the meeting. Shareholders will be provided with an opportunity to ask questions in relation to the reports but there will be no formal resolution put to the meeting.

### Item 2 - Advisory Vote in Relation to the Remuneration Report of the Company

Section 250R(2) of the Corporations Act requires that shareholders of a listed company vote in respect of the remuneration report of the Company. Section 250R(3) of the Corporations Act provides that the vote on the resolution is advisory only and does not bind the board of directors of the Company (**Board**). The remuneration report is contained within the directors' report of the Company, on page 38 of the Company's annual report for the financial year ended 30 June 2006. Shareholders will be provided with an opportunity to ask questions in relation to the remuneration report prior to the resolution being voted on as an ordinary resolution.

### Item 3 - Re-election of Dr Peter Farrell AM PhD DSc – Independent Non Executive Director

Dr Peter Farrell was appointed as a director of the Company by the Board on 16 March 2006. The constitution of the Company and the Listing Rules of Australian Stock Exchange (**ASX Listing Rules**) provide that any director appointed since the last annual general meeting of the Company must retire at the end of the next annual general meeting. Dr Peter Farrell retires in accordance with the constitution of the Company and the ASX Listing Rules and offers himself for re-election.

Dr Peter Farrell has spent more than 20 years developing and commercialising medical products in the United States of America, Europe, Japan and Australia. He is widely recognised as a leader in engineering, biomedicine and entrepreneurship, and was appointed a Member of the Order of Australia in 2004 for his services to biomedical research and engineering. In 2005, Peter was named the United States Entrepreneur of the Year for Health Sciences.

Dr Peter Farrell began his commercial career with Baxter Healthcare Inc. in Japan as Director and Vice President of Research and Development, then as Managing Director of the Baxter Center for Medical Research. Peter left Baxter in 1989 to establish ResMed Inc., a company that develops treatments for sleep-disordered breathing and respiratory failure. Peter is currently founding Chairman and Chief Executive Officer of ResMed Inc. Since its initial public offering in 1995, ResMed has achieved 40 consecutive quarters of record year-on-year growth in revenue and profits. Peter also serves on the Executive Councils of Harvard Medical School and the University of California at San Diego, and is visiting Professor at the University of Sydney. He has written more than 150 papers covering topics from engineering applications in medicine to focusing technology to meet business objectives.

If re-elected, Dr Peter Farrell's term of appointment will be until the end of the third annual general meeting subsequent to his re-election or three years (whichever is longer), subject to the constitution of the Company (in particular the retirement by rotation provisions), the ASX Listing Rules and the Corporations Act.

The Board (with Dr Peter Farrell abstaining) recommends that shareholders vote in favour of this resolution.

### Item 4 - Re-election of Mr Denis Hanley AM MBA FCPA – Independent Chairman

Mr Denis Hanley retires by rotation in accordance with the constitution of the Company and the ASX Listing Rules and offers himself for re-election.

Denis Hanley is a qualified accountant and company director with more than 35 years experience in the management of technology-based growth businesses. Denis joined the Board in 2001.

Denis spent 14 years with Baxter International Inc., a global medical products and services company. Denis' career at Baxter included a number of international assignments including its Chicago headquarters, and his last position was managing director of Baxter's Australian operations. In 1983, Denis was founding chief executive officer and, in 1986, executive chairman of the Australian-based separations technology company Memtec Ltd. Under his leadership, Memtec grew into a NYSE-listed global operating filtration and separations business with 1,700 employees. Since the sale of Memtec to US Filter Corporation in 1997, Denis has been a successful angel investor, assisting in the commercialisation of several Australian technologies. He is non executive chairman of CathRx Ltd and Lochard Ltd and a non-executive director of Universal Biosensors, Inc. Denis holds an MBA with High Distinction from Harvard Graduate School of Business, where he was named a Baker Scholar.

If re-elected, Denis Hanley's term of appointment will be until the third annual general meeting subsequent to his re-election or three years (whichever is longer), subject to the constitution of the Company (in particular the retirement by rotation provisions), the ASX Listing Rules and the Corporations Act.

The Board (with Denis Hanley abstaining) recommends that shareholders vote in favour of this resolution.

#### **Item 5 - Remuneration of Non Executive Directors**

Clause 51 of the constitution of the Company provides that the Company may remunerate each director as the Board decides, but that the total amount of directors' fees of non executive directors may not exceed the amount fixed in annual general meeting. ASX Listing Rule 10.17 likewise provides that the Company may not increase the total amount of directors' fees payable without the approval of ordinary shareholders.

Item 5 seeks the approval of ordinary shareholders of the Company under clause 51 of the constitution of the Company and ASX Listing Rule 10.17 to increase the maximum aggregate annual amount out of which fees may be paid to the non executive directors of the Company, by A\$300,000 from A\$300,000 per annum to A\$600,000 per annum. The change is proposed to take effect for the financial years commencing from and including 1 July 2006.

Non executive directors' fees (including statutory superannuation) are currently determined within the current annual remuneration cap of A\$300,000. Currently, there are two components to the fees paid to independent non executive directors:

- a base fee of A\$110,000 for the chairman and A\$60,000 for other non executive directors;
- an additional annual fee for non executive directors serving on committees of A\$5,000 as a committee member and A\$10,000 as a committee chair;

Independent non executive directors are permitted to package their total remuneration as determined above to include superannuation and/or options as an alternative to and reduction of their cash fee. Options granted as an alternative to an annual cash fee vest immediately upon shareholder approval.

The other non executive director, Ms Brigitte Smith, is a principal of a venture capital firm that manages funds which are a significant shareholder of the Company. As such, Ms Smith is not considered to be an independent director of the Company. Ms Smith is paid an annual fee of A\$40,696 and is not granted any options in the Company.

No termination payments are payable to non executive directors on their retirement from office.

Non executive directors' fees and payments are reviewed annually by the Board and the Remuneration and Nomination Committee of the Company. The actual amount of directors' fees paid to non executive directors was A\$190,687 for the 2004/2005 financial year and A\$234,292 for the 2005/2006 financial year.

The aggregate annual remuneration of A\$300,000 available for the non executive directors of the Company was set in 2003 prior to the initial public offering of the Company's ordinary shares and quotation of the Company's ordinary shares on Australian Stock Exchange (**ASX**). At that time the Board consisted of five non executive directors and two executive directors. The Board now comprises of six non executive directors and one executive director, and, in addition to substantial growth in the Company's operations since 2003, the Company has also listed on the NASDAQ Global Market. The demands that are made on and the responsibilities of, the non executive directors have increased significantly over this period.

During the 2006 financial year, the Company commenced the initial steps of transformation of the Board. Following the appointment of Dr Peter Farrell as a non executive director of the Company, Dr Carrie Hillyard and Dr Brett Charlton both resigned from the Board. The transformation process will continue in 2007 as the Company seeks new directors with relevant capability and experience.

Before commencing this transformation process the Board obtained external advice to assist in its deliberations in relation to the skills and experience required of new directors, and the appropriate remuneration policies necessary to attract suitable candidates.

The proposed increase in the aggregate directors' fees payable to non executive directors is made based on the external advice and provides the Board with required flexibility to continue to strengthen the Board.

#### **Items 6 to 10 – Grants of Options to Directors**

The grant of options to directors under the employee option plan of the Company (**Employee Option Plan**) requires the approval of shareholders under Listing Rule 10.14 of the ASX Listing Rules.

To date, the Board's practice has been to approve the grant of options during the course of the year and then seek shareholder approval for those grants of options at the next annual general meeting. The resolutions proposed in items 6(a), 6(b), 7(a), 8(a), 9(a) and 10(a) seek the approval of the past grants of options made by the Board since the last annual general meeting.

Listing Rule 10.14 of the ASX Listing Rules also permits the Company to seek prior approval for the grant of up to a specified maximum number of options for the future 12 month period following the annual general meeting. Going forward, the Company wishes to seek prior approval from shareholders to the grant of options to directors in this manner. By approving the grant of options in advance:

- options can be granted to directors at the same time as options are granted to other employees of the Company;
- tax complexity surrounding the grant date of options is reduced for directors; and
- it is clearer to the public as to the status of the Company's issued share capital.

The resolutions proposed in items 6(c), 7(b), 8(b), 9(b) and 10(b) seek prior shareholder approval for the grant of options to the specified directors up to a specified maximum number for the period of 12 months following the annual general meeting of the Company.

No options have been granted to directors since the approval by ordinary shareholders of the grant of options to Directors at the last annual general meeting. However, during the year, the Board has resolved to grant options, subject to the receipt of shareholder approval to directors of the Company.

The names of the directors that may be granted options under items 6 to 10 are Mr Denis Hanley, Dr Peter Farrell, Mr Charles Kiefel, Mr Malcolm McComas and Dr Alan Robertson.

**Items 6(a), 6(b), 7(a), 8(a), 9(a) and 10(a) – Options Approved to be Granted Prior to the Date of the Annual General Meeting**

Immediately prior to the appointment of Dr Peter Farrell as a non executive director of the Company, on 16 March 2006 the Board resolved, subject to the receipt of necessary shareholder approval, to grant Dr Peter Farrell 200,000 options for no cash consideration and with an exercise price of A\$2.068 (which represents the average closing price of the Company's ordinary shares on ASX on the five trading days prior to 16 March 2006) under the Employee Option Plan. If approved, the proposed options would be taken to be granted on 16 March 2006 and would expire on 15 March 2016. Item 6(a) seeks approval in respect of the grant of 200,000 options to Dr Peter Farrell.

The initial options proposed to be granted to Dr Peter Farrell pursuant to Item 6(a) would be governed by the terms of the Employee Option Plan and would be granted on terms generally consistent with the existing options granted by the Company. The proposed options would vest in four equal tranches with the first quarter vesting on 30 June 2007, the second quarter vesting on 30 June 2008, the third quarter vesting on 30 June 2009 and the final quarter vesting on 30 June 2010.

Following a review of director and employee performance for the year ended 30 June 2006, on 8 August 2006 the Board resolved, subject to the receipt of the necessary shareholder approvals, to grant an additional 278,957 options to directors of the Company under the Employee Option Plan as set out below:-

- 40,000 options to Mr Denis Hanley, the non executive chairman of the Company;
- 20,000 options to Dr Peter Farrell, a non executive director;
- 48,957 options to Mr Charles Kiefel, a non executive director;
- 20,000 options to Mr Malcolm McComas, a non executive director; and
- 150,000 options to Dr Alan Robertson, the chief executive officer of the Company, each for no cash consideration and with an exercise price of A\$1.917 (which represents the average closing price of the Company's ordinary shares on ASX on the five prior trading days prior to 8 August 2006).

If approved, the proposed options would be taken to be granted on 15 August 2006 and would expire on 14 August 2016. Items 6 (b), 7(a), 8(a), 9(a) and 10(a) seek approval in respect of the grant of options to each of Dr Peter Farrell, Mr Denis Hanley, Mr Charles Kiefel, Mr Malcolm McComas and Dr Alan Robertson.

Each of the options proposed to be granted pursuant to Items 6(b), 7(a), 8(a), 9(a) and 10(a) would be governed by the terms of the Employee Option Plan and would be granted on terms generally consistent with the existing options granted by the Company. The non executive directors have elected to accept the proposed grant of options as an alternative to either all or a portion of their current year directors' cash fee. As such, the proposed options to be granted under items 6(b), 7(a), 8(a), 9(a) to Mr Denis Hanley, Dr Peter Farrell, Mr Charles Kiefel and Mr Malcolm McComas would therefore vest immediately upon shareholder approval.

In respect of those options granted to Dr Alan Robertson subject to the receipt of necessary shareholder approval, the proposed options would vest in four equal tranches with the first quarter vesting on 30 June 2007, the second quarter vesting on 30 June 2008, the third quarter vesting on 30 June 2009 and the final quarter vesting on 30 June 2010 and is also subject to the achievement of annual performance targets set and approved by the Company's Remuneration and Nomination Committee. The Company's Remuneration and Nomination Committee may approve the vesting of all or only a portion of the relevant options. If a takeover offer is made for the Company, all options which have not yet vested, automatically vest.

Subject to receipt of shareholder approval, the options the subject of Items 6(b), 7(a), 8(a), 9(a) and 10(a) would be granted under the Employee Option Plan as soon as practicable after the

annual general meeting and in any event no later than 12 months from the date of the annual general meeting.

The Company will not receive any cash consideration from the grant of the options but will receive cash consideration on the exercise of the options. The consideration received on exercise of the options will be used for the Company's general corporate purposes. The Company will not provide any loans or other financial assistance in connection with the grant or exercise of the proposed options.

***Items 6(c), 7(b), 8(b), 9(b) and 10(b) – Options Approved to be Granted in the 12 Months After the Date of the Annual General Meeting***

As noted above, the Board's practice has been to grant options during the course of the year and then retrospectively seek shareholder approval at the next annual general meeting. The Board now wishes to approve the grant of options in advance to the extent possible. The Company seeks approval for each of Dr Peter Farrell, Mr Denis Hanley, Mr Charles Kiefel, Mr Malcolm McComas and Dr Alan Robertson to participate in the Employee Option Plan up to the specified maximum number of options set out in the notice of meeting for a period of twelve months from the date of the annual general meeting.

The proposed options would be governed by the terms of the Employee Option Plan and would be granted at the discretion of the Board on terms generally consistent with the existing options granted by the Company to directors. The options would expire 10 years after the date of grant of the options. The options would be granted for no cash consideration and would be exercisable at a price which represents the volume weighted average price of the Company's ordinary shares on ASX over the five trading days prior to the date of grant by the Board.

The proposed options would vest immediately upon grant for non executive directors, and in the case of executive directors, in four equal tranches with the first quarter vesting on 30 June 2008, the second quarter vesting on 30 June 2009, the third quarter vesting on 30 June 2010 and the final quarter vesting on 30 June 2011. In respect of options issued to Dr Alan Robertson, the vesting of the options likewise vest in four equal tranches and are also subject to the achievement of annual performance targets set and approved by the Company's Remuneration and Nomination Committee. The Company's Remuneration and Nomination Committee may approve the vesting of all or only a portion of the relevant options. If a takeover offer is made for the Company, all options which have not yet vested, vest.

Subject to receipt of shareholder approval, the options would be granted under the Employee Option Plan when approved by the Board in the 12 months following the date of the annual general meeting. Details of options granted to directors in accordance with the terms of the Employee Option Plan and any underlying ordinary shares issued on the exercise of these options will be published in each annual report of the Company, relating to the relevant period in which options were granted or the shares were issued.

Any additional persons who become entitled to participate in the Employee Option Plan after the date of approval of these proposed resolutions and who was not named in this notice of meeting will not participate until approval is obtained under Listing Rule 10.14.

The Company will not receive any cash consideration on the grant of the options but will receive cash consideration on the exercise of the options. The consideration received on exercise of the options will be used for the Company's general corporate purposes. The Company will not provide any loans or other financial assistance in connection with the grant or exercise of the proposed options.

***Option terms***

When exercisable, each option granted under the Employee Option Plan entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company. Each ordinary share issued on exercise of an option will rank equally with all other ordinary shares then on issue.

The Company will not receive any cash consideration on the grant of the options but will receive cash consideration on the exercise of the options by the holder. The consideration received on the exercise of the options will be used for the Company's general corporate purposes.

The proposed resolutions set out in items 6 to 10 seek the necessary shareholder approvals to grant the options to Dr Peter Farrell, Mr Denis Hanley, Mr Charles Kiefel, Mr Malcolm McComas and Dr Alan Robertson under the Employee Option Plan up to the maximum amounts specified above. The directors (with each relevant director abstaining in respect of option grants to themselves) recommend that shareholders vote in favour of resolutions 6 to 10 (inclusive).

## **Renewal of Proportional Takeover Provision in the Constitution of the Company**

### *Proportional Takeover Provision*

The Company's constitution was adopted in November 2003 immediately prior to the quotation of the Company's ordinary shares on ASX. The constitution of the Company contains a proportional takeover provision which provides that if a person makes a proportional takeover offer for less than all of the share capital of the Company, ordinary shareholders are entitled to vote to determine whether the proportional takeover offer may proceed.

The terms of the proposed provision are set out in article 45 of the current constitution of the Company, a copy of which is available on the Company's website [www.pharmaxis.com.au](http://www.pharmaxis.com.au).

In accordance with the Corporations Act, the proportional takeover provision expires three years after adoption of the provision. As a result, the proportional takeover provision is due to expire in November 2006. The directors of the Company consider that it is in the best interests of shareholders for the constitution of the Company to contain the proportional takeover provision and shareholders are asked to renew the provision to ensure that the provision continues to apply.

### *Reasons for Renewing the Proportional Takeover Provision*

In the absence of a proportional takeover provision, a person holding or acquiring less than a majority interest in the Company (**Offeror**) may be able to gain control of the Company without acquiring a majority interest and without ordinary shareholders having the opportunity to dispose of all of their shares to the Offeror. The Board considers that ordinary shareholders should have the opportunity to determine whether or not a proportional takeover should be permitted to proceed. This is achieved by requiring shareholders to pass a resolution approving a proportional takeover bid. Accordingly, the Board has proposed the renewal of article 45 in the constitution of the Company which requires the approval of ordinary shareholders for a proportional takeover.

### *Effect of the Proposed Proportional Takeover Provision*

In conjunction with the Corporations Act, the proportional takeover provision provides that if a proportional takeover offer for less than all of the share capital of the Company is received from an Offeror, the Board must ensure that an approving shareholder resolution is voted on no more than 14 days before the bid period ends. The Board will decide whether the vote is to be taken at a general meeting or by a postal ballot.

If the resolution seeking the approval of shareholders for the specific proportional takeover offer is rejected by simple majority within the time permitted under the Corporations Act, the registration of any transfer of shares resulting from that proportional takeover bid will be prohibited.

If no approval resolution is voted on more than 14 days before the offer period ends, the approval resolution will be deemed to have been approved.

If the approval resolution is passed by simple majority, the relevant transfers of shares will be registered provided they otherwise comply with the provisions of the constitution of the Company.

The proportional takeover provisions in the constitution will again cease to have effect three years after their renewal unless again renewed by a special resolution.

#### *No Present Acquisition Proposals*

The Board is not aware of any proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company. The Board does not propose the proportional takeover provision because of any transaction of which they are currently aware.

#### *Potential Advantages and Disadvantages*

The Board considers that the primary advantage of the proposed takeover provision is to ensure that all shareholders have an opportunity to consider a proportional takeover bid. The ability to vote on a proportional takeover bid gives shareholders the opportunity to prevent the proportional takeover from proceeding if they so desire and should ensure that the terms of any future proportional takeover bids apply to a majority of shareholders. The Board also considers that the opportunity for shareholders to vote is desirable because it enables the directors to formally ascertain the views of shareholders in respect of a proportional takeover bid.

A potential disadvantage of the proposed provision is that it makes it more difficult for a proportional takeover bid to proceed and may discourage proportional takeover bids. This in turn may reduce the opportunities which shareholders may have to sell some of their shares at an attractive price to persons seeking control of the Company and may reduce any speculative element arising from a possible proportional takeover bid in the Company's share price. However, the Board believes that the requirement that the views of shareholders be obtained prior to a proportional takeover should not adversely affect any offer which is attractive to the majority of shareholders.

The directors recommend that shareholders vote in favour of resolution 11.

**QUESTIONS FROM SHAREHOLDERS**

The annual general meeting of Pharmaxis Ltd will be held on 26 October 2006 at 2:30 pm. Shareholders are invited to register questions in advance of the meeting.

This form may also be used to submit written questions to the auditor if the question is relevant to the content of the auditor's report or the conduct of the audit of the annual financial report of the Company.

**If you wish to submit a written question, it must be received no later than five business days before the date of the meeting.** Shareholders may also ask questions of the board of directors of the Company and the auditor at the meeting.

Please return this form to Computershare Investor Services Pty Limited, located at Level 2, 60 Carrington Street, Sydney NSW 2000 or at the Company's Registered Office, Unit 2, 10 Rodborough Road, Frenchs Forest NSW 2086, or by facsimile to Computershare on (02) 8235 8220 or to the Company on (02) 9451 3622.

Shareholder name

Security holder Reference Number (SRN)

or

Holder Identification Number (HIN)

Please tick the applicable box below if your question is a question for the auditor of the Company

- 1. ....
- 2. ....
- 3. ....

**Pharmaxis Ltd**  
 ABN 75 082 811 630

**All correspondence to:**  
 Computershare Investor Services Pty Limited  
 GPO Box 242 Melbourne  
 VIC 8060 Australia  
 Enquiries (within Australia) 1300 855 080  
 (outside Australia) 61 3 9415 4000  
 Facsimile 61 2 8235 8220  
 www.computershare.com

Mark this box with an 'X' if you have made any changes to your address details (see reverse)



## Appointment of Proxy

I/We being a member/s of Pharmaxis Ltd and entitled to attend and vote hereby appoint



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

OR

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Pharmaxis Ltd to be held at The Sheraton on the Park, 161 Elizabeth Street, Sydney, NSW on 26 October 2006 at 2.30 pm and at any adjournment of that meeting.



If the Chairman of the meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy how to vote as your proxy in respect of a resolution, please place a mark in the box. By marking this box, you acknowledge that the Chairman of the meeting may exercise your proxy even if he has an interest in the outcome of the resolution/s and that votes cast by the Chairman of the meeting for those resolutions other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

The Chairman of the meeting intends to vote undirected proxies in favour of each item of business.

## Voting directions to your proxy - please mark to indicate your directions

	For	Against	Abstain*		For	Against	Abstain*
2 Approval of remuneration report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7b Future grant of up to 40,000 Options to Mr Hanley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Re-election of Dr Farrell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8a Grant of 48,957 Options to Mr Kiefel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Re-election of Mr Hanley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8b Future grant of up to 50,000 Options to Mr Kiefel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Remuneration of Non Executive Directors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9a Grant of 20,000 Options to Mr McComas	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6a Grant of 200,000 Options to Dr Farrell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9b Future grant of up to 20,000 Options to Mr McComas	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6b Grant of 20,000 Options to Dr Farrell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10a Grant of 150,000 Options to Dr Robertson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6c Future grant of up to 20,000 Options to Dr Farrell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10b Future grant of up to 150,000 Options to Dr Robertson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7a Grant of 40,000 Options to Mr Hanley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11 Renewal of Proportional Takeover Provision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\* If you mark the Abstain box for a particular item, 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.

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

Individual or Securityholder 1

Sole Director and  
 Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

# How to complete the Proxy Form

## 1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

## 2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. 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 securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

## 3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted 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 vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

## 4 Appointment of a Second Proxy

You are entitled to appoint up to two 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's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the 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 half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

## 5 Signing Instructions

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

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at [www.computershare.com](http://www.computershare.com).

## Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting at 2.30 pm on 26 October 2006. Any Proxy Form received after that time will not be valid for the scheduled meeting.

### Documents may be lodged:

IN PERSON	Registered Office -Unit 2, 10 Rodborough Road, Frenchs Forest, NSW 2086 Share Registry - Computershare Investor Services Pty Limited, Level 2, 60 Carrington Street, Sydney NSW 2000 Australia Company - Unit 2, 10 Rodborough Road, Frenchs Forest, NSW 2086
BY MAIL	Registered Office -Unit 2, 10 Rodborough Road, Frenchs Forest, NSW 2086 Share Registry - Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 8060 Australia
BY FAX	Registered Office - 61 2 02 9451 3622 Share Registry - 61 2 8235 8220

## QUESTIONS FROM SHAREHOLDERS

The annual general meeting of Pharmaxis Ltd will be held on 26 October 2006 at 2:30 pm. Shareholders are invited to register questions in advance of the meeting.

This form may also be used to submit written questions to the auditor if the question is relevant to the content of the auditor's report or the conduct of the audit of the annual financial report of the Company.

**If you wish to submit a written question, it must be received no later than five business days before the date of the meeting.** Shareholders may also ask questions of the board of directors of the Company and the auditor at the meeting.

Please return this form to Computershare Investor Services Pty Limited, located at Level 2, 60 Carrington Street, Sydney NSW 2000 or at the Company's Registered Office, Unit 2, 10 Rodborough Road, Frenchs Forest NSW 2086, or by facsimile to Computershare on (02) 8235 8220 or to the Company on (02) 9451 3622.

Shareholder name

Security holder Reference Number (SRN)

or

Holder Identification Number (HIN)

Please tick the applicable box below if your question is a question for the auditor of the Company

1 .....

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2 .....

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3 .....

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