pharmaxis

Pharmaxis Ltd

ABN 75 082 811 630

ASX Preliminary Final Report – 30 June 2012

Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with the Statutory Annual Report dated 11th August 2011 and any public announcements made by during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

Pharmaxis Ltd
ABN 75 082 811 630

Reporting period: Year ended 30th June 2012
(Previous corresponding period: Year ended 30th June 2011)

Results for announcement to the market

				A$'000
Revenue from ordinary activities	**Up**	**85%**	to	**8,254**
Profit / (Loss) from ordinary activities after tax	**Down**	**16%**	to	**(38,644)**
Net profit / (loss) for the year attributable to members	**Down**	**16%**	to	**(38,644)**

Dividends

It is not proposed to pay a dividend

Other Appendix 4E information

	30 June 2012	30 June 2011
Net tangible assets per ordinary share	**$ 0.31**	$ 0.24

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

Overview

Bronchitol

The Group has developed Bronchitol for the management of chronic obstructive lung diseases including cystic fibrosis andbronchiectasis. Bronchitol is a proprietary formulation of mannitol administered as a dry powder in a convenient hand-held inhaler. It is designed to hydrate the lungs, restore normal lung clearance mechanisms, and help patient's clear mucus more effectively.

Significant events during the year included:

- In October 2011 the CHMP adopted a positive opinion recommending the granting of a Marketing Authorisation for Bronchitol for the treatment of cystic fibrosis in adults as an add-on therapy to best standard of care. This outcome was subsequent to a detailed submission requesting re-examination of its earlier negative opinion.

- In December 2012 the Company completed recruitment of its pivotal Phase III trial with Bronchitol in bronchiectasis. The trial has involved 485 subjects in close to 100 hospitals all around the world. Subjects who enter the trial are treated for 12 months and the principle objective is to show that Bronchitol can reduce exacerbations for people with bronchiectasis. There are a number of additional outcomes that will be measured including lung function and sputum production. The last patient should finish the trial in early 2013 and the data will be available shortly thereafter.

- In April 2012 the European Commission granted the Company a marketing authorisation for Bronchitol and the Company officially launched Bronchitol for cystic fibrosis in the United Kingdom and Germany in June 2012.

- In June 2012 the Australian Federal Government announced that Bronchitol will be listed on the Australian Pharmaceutical Benefits Scheme, subsequent to a recommendation for listing by the government's expert advisory body the Pharmaceutical Benefits Advisory Committee in March 2012.

- In May 2012 the Company submitted a New Drug Application to the US Food and Drug Administration (FDA) seeking approval for Bronchitol for the management of cystic fibrosis in patients 6 years and older to improve pulmonary function. The FDA has previously granted Bronchitol Orphan Drug designation for the treatment of patients with cystic fibrosis.

- At the European Cystic Fibrosis Meeting in June 2012 held in Ireland the Company presented a more detailed analysis of its two Phase 3 clinical studies of Bronchitol showing a reduction in exacerbations in all age groups of cystic fibrosis patients.

Aridol

Aridol is the group's first approved product. It is a simple-to-use airway provocation test administered as a dry powder in a hand-held inhaler. Doctors can use the results of this test to identify airway hyper-responsiveness – one of the hallmarks of asthma.

The key focus for the growth of Aridol is the US Market. Sales commenced in late February 2011 and the Group continues the process of promoting and marketing the product to advance product awareness and sales growth.

Korea is the other Aridol growth market where sales increased 82 percent in 2012.

Other

Other key milestones for the Group during the year included:

- The Company undertook a pro-rata, accelerated non-renounceable entitlement offer comprising an institutional component and a retail component. The Company issued approximately 76.4 million ordinary shares and raised approximately $76.1 million (net of related transaction costs).

- The Company completed an exploratory Phase IIa trial with ASM8 in patients with allergic asthma.

- Drug candidate PXS4728A entered formal preclinical safety testing. PXS4728A has been shown in preclinical studies to have potential applications in inflammatory lung diseases such as asthma and COPD, inflammatory eye disease such as macular degeneration, fibrosis—particularly of the liver following cirrhosis and complications associated with diabetes. In addition, studies are in progress to determine its potential in treating certain forms of cancer.

- The Company's long serving Chairman Mr Denis Hanley AM retired from the Board of Directors effective 30 April 2012. The Board appointed existing director Mr Malcolm McComas as the new Chairman.

Results of Operations

Sales and Gross Profit

Year ended 30 June	**2012**	**2011**
In thousands	**A$**	**A$**
Australia	**269**	253
Europe	**336**	398
Korea	**373**	205
United States	**353**	54
	1,331	910

The above table includes $16,000 of Bronchitol sales in Europe subsequent to its commercial launch in June 2012.

Gross profit was approximately 61 percent and 62 percent of sales in 2012 and 2011 respectively.

Other revenue – interest. Interest income decreased from A$3.1 million in 2011 to A$3.0 million in 2012.

Other income. Other income includes an accrual for R&D tax incentive credits earned by the company on eligible R&D activities during the year ended 30 June 2012. The new R&D Tax Incentive scheme in Australia enables a 45 per cent refundable tax offset to eligible entities with an aggregated turnover of less than $20 million per annum. Pharmaxis Ltd will fall into this category for the 2012 financial year. In 2011 the Company's Canadian subsidiary accrued R&D tax credits of A$0.17 million. Also included in other income are fees charged for the group's UK sales force promoting other pharmaceutical companies' products to respiratory specialists.

Research and Development Expenses. Research and development expenses were A$29.2 million in 2012 compared to A$34.6 million in 2011.

1. The drug discovery and development group is focused on respiratory drug discovery and accounted for approximately 12 percent of our total research and development expenditure in the current year and decreased by approximately 20 percent or A$0.9 million compared to 2011 reflecting closure of the drug discovery unit in Montreal in December 2010, which had contributed to the additional research infrastructure and associated costs in the 2011 year. The Montreal activities have been absorbed into the Sydney based research programs.

2. The clinical group accounted for approximately 50 percent of the total research and development expenditure in 2012 and decreased by approximately 15 percent or A$2.5 million compared to 2011. The clinical group designs and monitors the clinical trials. The majority of the expenditures of this group are directed at hospitals and other services related to the conduct and analysis of clinical trials. This decrease in expenditure reflects the decrease in the number of clinical trials in the active dosing phase during the year.

3. The manufacturing facility at Frenchs Forest is predominantly focused on producing material for clinical trials, producing and analyzing material in support of regulatory filings and developing enhanced manufacturing products and processes. Manufacturing expenses for the current year have, therefore, mainly been classified as research and development expenditure. Costs associated with the Aridol and Bronchitol products sold are classified as cost of

sales. Manufacturing accounted for approximately 32 percent of total research and development expenditure in 2012 and decreased by approximately 17 percent or A$2 million compared to 2011. The drivers for this decrease include lower manufacturing costs related to the supply of clinical trial material for the Phase III trial in Bronchiectasis and lower costs incurred on development of our new inhalation device.

4. Amortisation of patent costs are a component of research and development. Patents were the predominant asset arising from the acquisition of Topigen Pharmaceuticals, Inc and Technology Innovation Ltd in the first half of 2010. Patent amortisation accounted for approximately 6 percent of total research and development expenditure in 2012 which is consistent with 2011.

***Commercial Expenses**.* Commercial expenses are focused on developing and delivering the commercial strategy and capability to sell Aridol and Bronchitol globally. Commercial expenses were A$11.1 million in 2012 compared to A$9.2 million in 2011. The increase in commercial expenses is attributable to the scale-up of commercial infrastructure and resources and the launch of Bronchitol in Europe and to a lesser extent Australia. The higher costs were marginally offset by a continuing stronger AUD exchange rate in the current year reducing the Australian dollar value of the US and UK commercial operations.

***Administration Expenses**.* Administration expenses include accounting, administration, recruitment and public company costs and were A$5.4 million in 2012 and A$5.2 million in 2011.

***Finance Costs**.* Finance costs represent the finance charge associated with the capitalised finance lease of the facility at Frenchs Forest, Sydney.

***Income Tax Expense**.* Income tax expense relates to tax on the income generated by the group's subsidiaries which are currently reimbursed for their R&D and local management functions expenditures on a cost plus basis, upon which tax is payable. The tax credit reflects a claw-back on US taxes paid in prior periods subsequent to start up losses on the launch of Aridol which the US subsidiary sells in its own right.

Loss. The loss decreased from A$45.8 million in 2011 to A$38.6 million in 2012 due to the movement in operating expenses discussed above.

***Basic and diluted net loss per share**.* Basic and diluted net loss per share improved from A$0.202 in 2011 to A$0.142 in 2012.

<u>Status of audit (Appendix 4E items 15 to 17)</u>

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

Attachment 1

Pharmaxis Ltd
Annual financial report - 30 June 2012

Contents

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

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

Pharmaxis Ltd
20 Rodborough Road
Frenchs Forest, NSW Australia 2086

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

The financial report was authorised for issue by the directors on 9th August 2012. The company has the power to amend and reissue the financial report.

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

Pharmaxis Ltd

Consolidated income statement

For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Revenue from continuing operations			
Revenue from sale of goods	2	**1,331**	910
Cost of sales		**(522)**	(342)
Gross profit		**809**	568
Other revenue	2	**3,049**	3,083
Other income	3	**3,874**	465
Other expenses from ordinary activities	4		
Research & development expenses		**(29,222)**	(34,632)
Commercial expenses		**(11,073)**	(9,163)
Administration expenses		**(5,387)**	(5,171)
Finance expenses		**(768)**	(859)
Loss before income tax		**(38,718)**	(45,709)
Income tax expense	5	**74**	(49)
Loss for the year		**(38,644)**	(45,758)
Earnings per share:		**Cents**	Cents
Basic earnings / (loss) per share	30	**(14.2)**	(20.2)
Diluted earnings / (loss) per share	30	**(14.2)**	(20.2)

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

Pharmaxis Ltd

Consolidated statement of comprehensive income

For the year ended 30 June 2012

	2012	2011
	$'000	$'000
Loss for the financial year	**(38,644)**	(45,758)
Other comprehensive income		
Exchange differences on translation of foreign operations	**(32)**	(466)
Other comprehensive income for the year, net of tax	**(32)**	(466)
Total comprehensive income for the year	**(38,676)**	(46,224)
Total comprehensive income for the year is attributable to:		
Owners of Pharmaxis Ltd	**(38,676)**	(46,224)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Consolidated balance sheet

As at 30 June 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**81,475**	44,343
Trade and other receivables	7	**4,322**	796
Inventories	8	**1,477**	864
Total current assets		**87,274**	46,003
Non-current assets			
Receivables	9	**2,600**	2,045
Other financial assets	10	**-**	-
Property, plant and equipment	11	**27,683**	30,570
Intangible assets	12	**14,143**	15,954
Total non-current assets		**44,426**	48,569
Total assets		**131,700**	94,572
LIABILITIES			
Current liabilities			
Trade and other payables	13	**5,990**	7,055
Borrowings	14	**515**	443
Other liabilities	15	**239**	239
Current tax liabilities		**35**	6
Total current liabilities		**6,779**	7,743
Non-current liabilities			
Borrowings	16	**12,145**	12,716
Other liabilities	17	**2,571**	2,810
Provisions	18	**402**	473
Total non-current liabilities		**15,118**	15,999
Total liabilities		**21,897**	23,742
Net assets		**109,803**	70,830
EQUITY			
Contributed equity	19	**344,388**	267,610
Reserves	20(a)	**14,331**	13,492
Accumulated losses	20(b)	**(248,916)**	(210,272)
Total equity		**109,803**	70,830

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

Pharmaxis Ltd

Consolidated statement of changes in equity

For the year ended 30 June 2012

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 30 June 2010		267,050	12,480	(164,514)	115,016
Loss for the year		-	-	(45,758)	(45,758)
Other comprehensive income		-	(466)	-	(466)
Total comprehensive income for the year		-	(466)	(45,758)	(46,224)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	560	-	-	560
Employee share options	20(a)	-	1,478	-	1,478
		560	1,478	-	2,038
Balance at 30 June 2011		**267,610**	**13,492**	**(210,272)**	**70,830**
Loss for the year		-	-	(38,644)	(38,644)
Other comprehensive income		-	(32)	-	(32)
Total comprehensive income for the year		**-**	**(32)**	**(38,644)**	**(38,676)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	19(a)	76,778	-	-	76,778
Employee share options	20(a)	-	871	-	871
		76,778	**871**	**-**	**77,649**
Balance at 30 June 2012		**344,388**	**14,331**	**(248,916)**	**109,803**

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

Pharmaxis Ltd

Consolidated statement of cash flows

For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,615**	1,294
Payments to suppliers and employees (inclusive of goods and services tax)		**(43,126)**	(42,572)
		(41,511)	(41,278)
Grant receipts from government		**171**	966
Interest received		**3,049**	3,083
Income tax paid		**149**	(137)
Net cash outflow from operating activities	29	**(38,142)**	(37,366)
Cash flows from investing activities			
Payment for acquisition of subsidiaries, net of cash acquired (net receipt)		**-**	(1,496)
Payments for property, plant and equipment		**(204)**	(1,236)
Proceeds from disposal of plant and equipment		**110**	27
Payments for intangible assets		**(75)**	(178)
Net cash outflow from investing activities		**(169)**	(2,883)
Cash flows from financing activities			
Net proceeds from issues of shares		**76,693**	471
Finance lease payments		**(1,267)**	(1,229)
Net cash inflow / (outflow) from financing activities		**75,426**	(758)
Net increase / (decrease) in cash and cash equivalents		**37,115**	(41,007)
Cash and cash equivalents at the beginning of the financial year		**44,343**	85,787
Effects of exchange rate changes on cash and cash equivalents		**17**	(437)
Cash and cash equivalents at the end of the financial year	6	**81,475**	44,343

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pharmaxis Ltd and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*Pharmaxis Ltd is a for profit entity for the purposes of preparing the financial statements.

Compliance with IFRSs

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

Historical cost convention

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

Critical accounting estimates

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

(i) *Income taxes* - The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes and other tax related balances. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group estimates its tax liabilities/receipts based on the group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pharmaxis Ltd ("company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Pharmaxis Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer.

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Pharmaxis Ltd's functional and presentation currency.

1. Summary of significant accounting policies (continued)

(ii) Transactions and balances

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

(iii) Group companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and trade allowances. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Research & Development tax incentive income

Research & Development tax incentive income is recognised when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured.

(f) Government grants

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

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

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

(g) Income tax

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

1. Summary of significant accounting policies (continued)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income, or directly in equity, respectively.

The Group has unused tax losses of $264 million at 30 June 2012 as described in note 5.

(h) Leases

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

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

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

1. Summary of significant accounting policies (continued)

(j) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

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

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

(l) Trade receivables

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

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

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

(m) Inventories

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

(n) Property, plant and equipment

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

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

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

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

1. Summary of significant accounting policies (continued)

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

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

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

(o) Intangible assets

(i) Patents

Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the patents over their estimated useful lives, which vary from 5 to 20 years.

(ii) Trademarks

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

(iii) Research and development

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

(iv) Software

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

(p) Trade and other payables

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

(q) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Retirement benefit obligations

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

(iv) Equity-based payments

Equity-based compensation benefits are provided to employees via the Pharmaxis Employee Equity Plans. Information relating to these schemes is set out in note 32. The fair value of equity granted under the various plans are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options / performance rights.

1. Summary of significant accounting policies (continued)

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

For performance rights the fair value at grant date is taken to be the closing share price on the date of grant.

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

(v) Bonus plans

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

(vi) Termination benefits

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

(r) Other liabilities

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

(s) Contributed equity

Ordinary shares are classified as equity.

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

(t) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

1. Summary of significant accounting policies (continued)

(v) Rounding of amounts

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

(w) Parent entity financial information

The financial information for the parent entity, Pharmaxis Ltd, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements.

(x) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

1. Summary of significant accounting policies (continued)

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

Annual Improvements Project - 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013)

In May 2012, the IASB made a number of amendments to International Financial Reporting Standards as a result of the 2009-2011 annual improvements project. The group will apply the amendments from 1 July 2013. The group does not expect that any material and/or significant adjustments will be necessary as the result of applying the revised rules.

2. Revenue

	2012	2011
	$'000	$'000
Sales revenue		
Sale of goods	**1,331**	910
Other revenue		
Interest	**3,049**	3,083

3. Other income

	2012	2011
	$'000	$'000
R&D Tax Incentive income	**3,739**	173
Service income	**135**	292
	3,874	465

Other income includes an accrual for R&D tax incentive credits earned by the Group on eligible R&D activities during the year. Within Australia, the new R&D Tax Incentive scheme enables a 45 per cent refundable tax offset (equivalent to a 150 per cent deduction) to eligible entities with an aggregated turnover of less than $20 million per annum. The company is within this threshold for the 2012 financial year.

4. Expenses

	2012	2011
	$'000	$'000
Loss before income tax includes the following specific expenses:		
Depreciation (note 11)		
Plant and equipment	**1,268**	1,356
Computer equipment	**251**	281
Leased building and improvements	**1,517**	1,491
Total depreciation	**3,036**	3,128
Amortisation (note 12)		
Patents	**1,757**	1,753
Trademarks	**6**	6
Software	**105**	139
Total amortisation	**1,868**	1,898
Impairment losses – financial assets		
Trade receivables	**(39)**	(12)
Net gain on disposal of plant and equipment	**(57)**	(26)
Rental expense relating to operating leases	**1,265**	1,436
Net foreign exchange losses / (gains)	**89**	(10)
Employee benefits expense		
Defined contribution superannuation	**996**	1,018
Other employee benefits expenses	**18,456**	18,246

5. Income tax expense

	2012	2011
(a) Numerical reconciliation of income tax expense to prima facie tax payable	**$'000**	$'000
Loss before income tax expense	**(38,718)**	(45,709)
Tax at the Australian tax rate 30% (2011:30%)	**(11,615)**	(13,713)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**287**	470
Government research tax incentives	**1,357**	(811)
Sundry items	**227**	8
	(9,744)	(14,046)
Over provision in prior years	**84**	155
Difference in overseas tax rates	**(13)**	(3)
Total	**(9,673)**	(13,894)
Deferred tax benefits not recognised	**9,599**	13,943
Income tax (benefit) / expense	**(74)**	49

This represents current income tax (benefit) / expense.

(b) Deferred tax balances

	2012	2011
Deferred tax asset comprises temporary differences attributable to the following:		
Interest and Grant receivables	**(167)**	(122)
Lease balances	**496**	367
Deferred lease incentive	**843**	915
Employee benefits	**654**	539
Share capital raising costs	**1,165**	514
Other	**74**	129
	3,065	2,342
Deferred tax assets attributable to temporary differences which are not recognised	**(3,065)**	(2,342)
	-	-

(c) Tax losses

	2012	2011
Unused tax losses for which no deferred tax asset has been recognised	**263,722**	231,444
Potential tax benefit @ 30%	**79,117**	69,433

All unused tax losses were incurred by the parent entity.

6. Current assets – Cash and cash equivalents

	2012	2011
	$'000	$'000
Cash at bank and in hand	**736**	847
Deposits at call	**2,673**	3,050
Bank accepted commercial bills	**78,066**	40,446
	81,475	44,343

Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 31. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents above.

7. Current assets – Trade and other receivables

	2012	2011
	$'000	$'000
Trade receivables	**359**	399
Provision for impairment of receivables (note (b))	**(72)**	(111)
	287	288
R&D Tax Incentive receivable	**3,767**	199
Prepayments (note (c))	**70**	113
Tax related receivables	**198**	196
	4,322	796

(a) Past due but not impaired

As of 30 June 2012, trade receivables of $162,473 (2011: $83,885) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2012	2011
	$'000	$'000
Up to 1 month	**75**	33
1 to 2 months	**10**	50
Over 2 months	**77**	1
	162	84

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

(b) Impaired trade receivables

As of 30 June 2012, trade receivables of $71,739 (2011: $111,408) were impaired.

(c) Prepayments

Prepayments relate to insurance premiums and income tax instalments paid in advance.

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

(d) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 31.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 31 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

8. Current assets – Inventories

	2012	2011
	$'000	$'000
Raw materials - at cost	**472**	288
Work-in-progress - at cost	**628**	272
Finished goods - at cost	**377**	304
	1,477	864

9. Non-current assets – Receivables

	2012	2011
	$'000	$'000
Other receivables (note (a))	**2,600**	2,045
Prepayments	**-**	-
	2,600	2,045

(a) Other receivables

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

(b) Fair value

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

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 31.

10. Non-current assets – Other financial assets

	2012	2011
	$'000	$'000
Shares in subsidiaries (note 26)	**-**	-

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

	Plant and equipment	Computer equipment	Leased building and improvements	Total
	$'000	$'000	$'000	$'000
At 1 July 2010				
Cost	14,846	1,300	23,022	39,168
Accumulated depreciation and impairment	(3,860)	(682)	(2,089)	(6,631)
Net book amount	10,986	618	20,933	32,537
Year ended 30 June 2011				
Opening net book amount	10,986	618	20,933	32,537
Exchange differences	(17)	(10)	(1)	(28)
Additions	964	203	23	1,190
Disposals	-	(1)	-	(1)
Depreciation charge	(1,356)	(281)	(1,491)	(3,128)
Closing net book amount	10,577	529	19,464	30,570
At 30 June 2011				
Cost	15,782	1,404	23,044	40,230
Accumulated depreciation and impairment	(5,205)	(875)	(3,580)	(9,660)
Net book amount	10,577	529	19,464	30,570
Year ended 30 June 2012				
Opening net book amount	10,577	529	19,464	30,570
Exchange differences	2	4	-	6
Additions	91	105	-	196
Disposals	(48)	(5)	-	(53)
Depreciation charge	(1,268)	(251)	(1,517)	(3,036)
Closing net book amount	9,354	382	17,947	27,683
At 30 June 2012				
Cost	15,707	1,490	23,044	40,241
Accumulated depreciation and impairment	(6,353)	(1,108)	(5,097)	(12,558)
Net book amount	9,354	382	17,947	27,683

(a) Leased assets

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

	2012	2011
	$'000	$'000
Cost	**13,916**	13,916
Accumulated amortisation	**(2,909)**	(1,982)
Net book amount	**11,007**	11,934

12. Non-current assets – Intangible assets

	Patents $'000	Trademarks $'000	Software $'000	Total $'000
At 1 July 2010				
Cost	18,699	112	604	19,415
Accumulated amortisation and impairment	(1,373)	(17)	(323)	(1,713)
Net book amount	17,326	95	281	17,702
Year ended 30 June 2011				
Opening net book amount	17,326	95	281	17,702
Additions	81	-	69	150
Disposals	-	-	-	-
Amortisation charge	(1,753)	(6)	(139)	(1,898)
Closing net book amount	15,654	89	211	15,954
At 30 June 2011				
Cost	18,780	112	673	19,565
Accumulated amortisation and impairment	(3,126)	(23)	(462)	(3,611)
Net book amount	15,654	89	211	15,954
Year ended 30 June 2012				
Opening net book amount	15,654	89	211	15,954
Additions	51	-	6	57
Disposals	-	-	-	-
Amortisation charge	(1,757)	(6)	(105)	(1,868)
Closing net book amount	13,948	83	112	14,143
At 30 June 2012				
Cost	18,831	111	680	19,622
Accumulated amortisation and impairment	(4,883)	(28)	(568)	(5,479)
Net book amount	13,948	83	112	14,143

13. Current liabilities – Trade and other payables

	2012 $'000	2011 $'000
Trade payables	**922**	1,235
Other payables (note (a))	**5,068**	5,820
	5,990	7,055

(a) Other payables

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

13. Current liabilities – Trade and other payables (continued)

(b) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 31.

14. Current liabilities – Borrowings

	2012	2011
	$'000	$'000
Secured		
Lease liabilities (note 24)	**515**	443

(a) Security and fair value disclosures

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

(b) Risk exposure

Information about the Group's exposure to risks arising from current and non-current borrowings is provided in note 31.

15. Current liabilities – Other liabilities

	2012	2011
	$'000	$'000
Deferred lease incentive	**239**	239

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

16. Non-current liabilities – Borrowings

	2012	2011
Secured	**$'000**	$'000
Lease liabilities (note 24)	**12,145**	12,716

Secured liabilities and assets pledged as security

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

17. Non-current liabilities – Other liabilities

	2012	2011
	$'000	$'000
Deferred lease incentive	**2,571**	2,810

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

18. Non-current liabilities – Provisions

	2012	2011
	$'000	$'000
Employee benefits - long service leave	**402**	473

19. Contributed equity

		Consolidated and Parent entity		Consolidated and Parent entity	
		2012	2011	**2012**	2011
(a) Share capital	Notes	**Shares**	Shares	**$'000**	$'000
Ordinary shares	(b),(c)				
Fully paid		**307,630,989**	228,290,309	**344,388**	267,610

Movements in ordinary share capital:

Details	Number of shares	Issue price	$'000
Opening balance as at 1 July 2010	225,410,234		267,050
Exercise of employee options	836,875	$ 0.5628 (1)	471
Employee Share Plan	43,200	$ 2.0690	89
Issued subsequent to the acquisition of a subsidiary	2,000,000		-
Closing Balance at 30 June 2011	228,290,309		267,610
Exercise of employee options	2,880,000	$ 0.208 (1)	600
Employee Share Plan	86,000	$ 0.991	85
Entitlement Offer	76,374,680	$ 1.050	80,193
Transaction costs on share issues	-		(4,100)
Closing Balance at 30 June 2012	307,630,989		344,388

(1) The issue price on exercise of employee options represents a weighted average issue price for the respective financial year.

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Equity plans

Information relating to the Pharmaxis Employee Equity Plans, including details of equity instruments issued, exercised and lapsed during the financial year and outstanding at the end of the financial year, is set out in note 32.

(c) Capital risk management

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

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

20. Reserves and accumulated losses

(a) Reserves

	2012	2011
	$'000	$'000
Share-based payments reserve	**14,719**	13,848
Foreign currency translation reserve	**(388)**	(356)
	14,331	13,492
Share-based payments reserve		
Balance 1 July	**13,848**	12,370
Equity expense	**871**	1,478
Balance 30 June	**14,719**	13,848
Foreign currency translation reserve		
Balance 1 July	**(356)**	110
Currency translation differences arising during the year	**(32)**	(466)
Balance 30 June	**(388)**	(356)

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2012	2011
	$'000	$'000
Balance 1 July	**(210,272)**	(164,514)
Net loss for the year	**(38,644)**	(45,758)
Balance 30 June	**(248,916)**	(210,272)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

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

(ii) Foreign currency translation reserve

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

21. Key management personnel disclosures

(a) Key management personnel compensation

	2012	2011
	$	$
Short-term employee benefits	**2,821,611**	2,343,884
Post-employment benefits	**185,710**	187,815
Long-term benefits	**70,709**	52,932
Share-based payments	**603,679**	1,043,251
	3,681,709	3,627,882

Detailed remuneration disclosures are provided in the remuneration report under section 2.2.

21. Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel

(i) Options and performance rights provided as remuneration and shares issued on exercise of such instruments

Details of equity instruments provided as remuneration and shares issued on the exercise of such instruments, together with related terms and conditions, can be found in the remuneration report section of the Directors' Report.

(ii) Option holdings

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

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
AD Robertson	1,960,000	-	(960,000)	-	1,000,000	1,000,000
MJ McComas	140,000	-	(100,000)	-	40,000	40,000
J Villiger	200,000	-	-	-	200,000	200,000
W Delaat	200,000	-	-	-	200,000	200,000
R van den Broek	-	-	-	-	-	-
Other key management personnel of the Group						
B Charlton	1,060,000	-	(300,000)	-	760,000	722,500
JF Crapper	930,000	-	-	-	930,000	892,500
HG Fox	337,500	-	-	-	337,500	253,125
IA McDonald	870,000	-	-	-	870,000	832,500
DM McGarvey	1,710,000	-	(480,000)	-	1,230,000	1,192,500
GJ Phillips	1,005,000	-	-	-	1,005,000	967,500

(1) DM Hanley resigned as a director effective 30th April 2012. Mr Hanley exercised 1,040,000 options during the year ended 30 June 2012. The remaining unexercised balance of 80,000 options lapsed before 30 June 2012.

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
DM Hanley	1,120,000	-	-	-	1,120,000	1,120,000
AD Robertson	1,960,000	-	-	-	1,960,000	1,710,000
MJ McComas	240,000	-	(100,000)	-	140,000	140,000
J Villiger	200,000	-	-	-	200,000	200,000
W Delaat	200,000	-	-	-	200,000	150,000
R van den Broek	-	-	-	-	-	-
Other key management personnel of the Group						
B Charlton	1,160,000	-	(100,000)	-	1,060,000	947,500
JF Crapper	930,000	-	-	-	930,000	817,500
HG Fox	400,000	-	(62,500)	-	337,500	168,750
IA McDonald	870,000	-	-	-	870,000	757,500
DM McGarvey	1,710,000	-	-	-	1,710,000	1,597,500
GJ Phillips	1,195,000	-	(190,000)	-	1,005,000	892,500

21. Key management personnel disclosures (continued)

(iii) Performance Rights holdings

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

2012 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
AD Robertson [(1)]	50,000	-	-	-	50,000	-
MJ McComas	-	-	-	-	-	-
J Villiger	-	-	-	-	-	-
W Delaat	-	-	-	-	-	-
R van den Broek	-	-	-	-	-	-
Other key management personnel of the Group						
B Charlton	40,000	150,000	-	-	190,000	-
JF Crapper	40,000	150,000	-	-	190,000	-
HG Fox	40,000	150,000	-	-	190,000	-
IA McDonald	40,000	-	-	-	40,000	-
DM McGarvey	40,000	150,000	-	-	190,000	-
GJ Phillips	40,000	150,000	-	-	190,000	-

[(1)] The directors have resolved to grant 200,000 performance rights to AD Robertson under the Company's employee option plan. The grant requires shareholder approval which will be sought at the annual general meeting of the Company, and if granted, reflected in the year ended 30 June 2013.

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Pharmaxis Ltd						
DM Hanley	-	-	-	-	-	-
AD Robertson	-	50,000	-	-	50,000	-
MJ McComas	-	-	-	-	-	-
J Villiger	-	-	-	-	-	-
W Delaat	-	-	-	-	-	-
R van den Broek	-	-	-	-	-	-
Other key management personnel of the Group						
B Charlton	-	40,000	-	-	40,000	-
JF Crapper	-	40,000	-	-	40,000	-
HG Fox	-	40,000	-	-	40,000	-
IA McDonald	-	40,000	-	-	40,000	-
DM McGarvey	-	40,000	-	-	40,000	-
GJ Phillips	-	40,000	-	-	40,000	-

(iv) Share holdings

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

21. Key management personnel disclosures (continued)

2012 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
AD Robertson	645,000	960,000	-	1,605,000
MJ McComas	239,999	100,000	-	339,999
J Villiger	250,000	-	83,334	333,334
W Delaat	25,000	-	8,334	33,334
R van den Broek (2)	75,000	-	-	75,000
Other key management personnel of the Group				
Ordinary shares				
B Charlton	46	300,000	(85,000)	215,046
JF Crapper	2,000	-	-	2,000
HG Fox	-	-	-	-
IA McDonald	-	-	-	-
DM McGarvey	12,127	480,000	(300,000)	192,127
GJ Phillips	90,000	-	-	90,000

(1) DM Hanley resigned as a director effective 30th April 2012.
(2) Richard van den Broek is associated with HSMR Advisors (QP) L.P, HSMR Advisors (QP) L.P, held 830,000 shares as at 30 June 2012 (2011: 830,000).

2011 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Pharmaxis Ltd				
Ordinary shares				
DM Hanley	798,295	-	-	798,295
AD Robertson	1,145,000	-	(500,000)	645,000
MJ McComas	139,999	100,000	-	239,999
J Villiger	-	-	250,000	250,000
W Delaat	25,000	-	-	25,000
R van den Broek	75,000	-	-	75,000
Other key management personnel of the Group				
Ordinary shares				
B Charlton	46	100,000	(100,000)	46
JF Crapper	2,000	-	-	2,000
HG Fox	-	62,500	(62,500)	-
IA McDonald	-	-	-	-
DM McGarvey	7,127	-	5,000	12,127
GJ Phillips	5,000	190,000	(105,000)	90,000

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year ended 30 June 2012.

22. Remuneration of auditors

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

	2012	2011
(a) Audit services	**$**	$
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	**228,807**	229,170
PricewaterhouseCoopers UK firm		
Audit of the financial report of Pharmaxis Pharmaceuticals Limited	**16,843**	15,230
Total remuneration for audit services	**245,650**	244,400
(b) Other assurance services		
PricewaterhouseCoopers Australian firm		
Control testing	**9,750**	9,750
Entitlement Rights Issue – Agreed upon procedures review	**20,000**	-
	29,750	9,750
PricewaterhouseCoopers China firm		
Accounting review services	**2,443**	14,841
Total remuneration for other services	**32,193**	24,591
(c) Tax services		
PricewaterhouseCoopers Australian firm		
International tax consulting and tax advice	**12,510**	23,967
Tax compliance services	**76,371**	17,000
	88,881	40,967
Other PricewaterhouseCoopers firms		
Tax compliance services	**101,471**	63,458
Total remuneration for tax services	**190,352**	104,425

23. Contingent liabilities

The Group had contingent liabilities at 30 June 2012 in respect of:

Guarantees

The Group's bankers have issued bank guarantees of $1,070,435 (2011: $1,069,203) in relation to rental bond deposits for which no provision has been made in the accounts. The rental bond deposits cover the leased building which has been accounted for as a finance lease and other leased premises accounted for as operating leases. These bank guarantees are secured by security deposits held at the bank.

The Group's bankers have provided a corporate credit card facility which is secured by a deposit held at the bank totalling $65,274 (2011: $77,920).

The Group's bankers have issued a bank guarantee of GBP180,000 (2011: GBP180,000) in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis Pharmaceuticals Limited. The company's bankers have also issued a bank guarantee of GBP140,000 in relation to a UK Customs Duty Deferment facility provided by an overseas affiliate of the banker to Pharmaxis Ltd. These bank guarantees are secured by a deposit held at the bank.

23. Contingent liabilities (continued)

The Group's bankers have issued a bank guarantee of USD175,000 (2011: USD175,000) in relation to corporate credit card and local payment clearing house facilities provided by an overseas affiliate of the banker to Pharmaxis, Inc. This bank guarantee is secured by a deposit held at the bank.

24. Commitments

(a) Capital Commitments

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

	2012	2011
	$'000	$'000
Plant and equipment		
Payable: Within one year	**-**	-

(b) Lease Commitments

(i) Non-cancellable operating leases

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

	2012	2011
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,172**	1,051
Later than one year but not later than five years	**3,947**	4,060
Later than 5 years	**4,353**	3,914
	9,472	9,025

(ii) Finance leases

The Group has entered into an agreement concerning the lease of a custom designed manufacturing, warehousing, research and office facility of approximately 7,200 square metres, constructed to our specifications. The lease has a term of 15 years, with two options to renew for a further five years each and the option to break the lease at ten years but with financial penalties attached. The initial minimum annual rental under the agreement for the finance lease component was $1.2 million. The operating lease component (disclosed in note 24 (b) (i)) was $0.4 million. Both components increase each year for the term of the agreement by 3.25%.

	2012	2011
	$'000	$'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**1,322**	1,280
Later than one year but not later than five years	**5,732**	5,551
Later than five years	**11,656**	13,080
Minimum lease payments	**18,710**	19,911
Future finance charges	**(6,050)**	(6,752)
Total lease liabilities	**12,660**	13,159
Current (note 14)	**515**	443
Non-current (note 16)	**12,145**	12,716
	12,660	13,159

24. Commitments (continued)

(iii) Other commitments

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

25. Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 26.

(c) Key management personnel

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

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Marketing, drug discovery, clinical, regulatory and administration services expenditure paid to subsidiaries	**-**	-	**7,311,490**	8,154,853

(e) Outstanding balances arising from transactions

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

	Consolidated		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Current receivables				
Subsidiaries	-	-	**-**	273,945
Current payables				
Subsidiaries	-	-	**445,254**	-

(f) Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

26. Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2012	Equity holding 2011
			%	%
Pharmaxis Pharmaceuticals Limited	United Kingdom	Ordinary	**100**	100
Pharmaxis, Inc.	United States	Ordinary	**100**	100
Topigen Pharmaceuticals Inc.	Canada	Ordinary	**100**	100
Technology Innovation Limited	United Kingdom	Ordinary	**100**	100

27. Events occurring after the balance sheet date

No matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

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

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

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

28. Financial reporting by segments

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

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

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

	2012	2011
	$'000	$'000
Loss for the year	**(38,644)**	(45,758)
Depreciation of property, plant & equipment	**3,036**	3,128
Amortisation of intangibles	**1,868**	1,898
Amortisation of lease incentive	**(239)**	(259)
Impairment losses – financial assets		
Trade receivables	**(39)**	(12)
Finance charges	**768**	859
Non-cash employee benefits expense - share-based payments	**956**	1,567
Net gain on disposal of non-current assets	**(57)**	(26)
Change in operating assets and liabilities		
Decrease / (Increase) in trade receivables	**40**	(25)
(Increase) in inventories	**(613)**	(440)
(Increase) / decrease in other operating assets	**(4,082)**	1,513
(Decrease) / increase in trade payables	**(313)**	149
(Decrease) in other operating liabilities	**(752)**	(78)
(Decrease) / increase in other non-current provisions	**(71)**	118
Net cash outflow from operating activities	**(38,142)**	(37,366)

30. Earnings per share

	2012 **Cents**	2011 Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the company	**(14.2)**	(20.2)
(b) Diluted earnings per share		
Loss attributable to the ordinary equity holders of the company	**(14.2)**	(20.2)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings / (loss) per share	**271,964,415**	226,874,590

(d) Information concerning the classification of option securities

Options granted to employees under the Pharmaxis Ltd Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Given the entity is currently loss making, the potential ordinary shares are anti-dilutive and have therefore not been included in the diluted earnings per share calculation. Details relating to the options are set out in note 32.

31. Financial risk management

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

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

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

	2012 **$'000**	2011 $'000
Financial assets		
Cash and cash equivalents	**81,475**	44,343
Trade and other receivables	**4,322**	796
Receivables	**2,600**	2,045
	88,397	47,184
Financial liabilities		
Trade and other payables	**5,990**	7,055
Borrowings	**12,660**	13,159
Other liabilities	**2,810**	3,049
	21,460	23,263

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally but is only exposed to minimal foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

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

31. Financial risk management (continued)

	30 June 2012			30 June 2011		
	USD	**GBP**	**EUR**	USD	GBP	EUR
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**113**	**104**	**23**	289	6	24
Trade receivables	**-**	**-**	**115**	-	-	154
Other receivables	**174**	**495**	**651**	-	-	341
Trade payables	**108**	**17**	**227**	46	213	251
Other payables	**325**	**369**	**910**	1,098	406	807

Group sensitivity

Based on the financial instruments held at 30 June 2012, had the Australian dollar weakened/strengthened by 10% against the EUR with all other variables held constant, the Group's post-tax loss for the year would have been $39,000 higher/$32,000 lower (2011 EUR: $60,000 higher/$49,000 lower), mainly as a result of foreign exchange gains/losses on translation of EUR denominated financial assets/liabilities as detailed in the above table.

(ii) Cash flow and fair value interest rate risk

The Group's main interest exposure arises from bank accepted commercial bills held. As at the reporting date, the Group had the following cash profile:

	30 June 2012		30 June 2011	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Cash and cash equivalents	**0.54%**	**3,409**	2.56%	3,897
Bank accepted commercial bills	**3.80%**	**78,066**	4.90%	40,446
Other receivables	**2.66%**	**2,600**	3.25%	2,045

Group sensitivity

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2012, if interest rates had changed by +/- 80 basis points from the year-end rates with all other variables held constant, post-tax loss for the year would have been $652,000 lower/higher (2011 – change of 80 bps: $371,000 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

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

Customer credit risk is managed by the establishment of credit limits. The compliance with credit limits by customers is regularly monitored by management, as is the ageing analysis of receivable balances. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 7 and note 9. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings:

	2012	2011
	$'000	$'000
Cash and cash equivalents		
A1+	**81,475**	44,343
Other receivables		
AA	**1,942**	1,691
Not rated	**658**	354
	2,600	2,045

31. Financial risk management (continued)

Other receivables primarily represent bank guarantee facilities related to finance and operating leases, corporate credit card and local payment clearing house facilities.

(c) Liquidity risk

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

Maturities of financial liabilities

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	$'000	$'000	$'000	$'000	$'000	$'000
Group - at 30 June 2012						
Non-interest bearing	6,229	239	716	1,616	8,800	8 800
Fixed rate	515	594	2,323	9,228	12,660	12,660
Total non-derivatives	6,744	833	3,039	10,844	21,460	21,460
Group - at 30 June 2011						
Non-interest bearing	7,294	239	716	1,855	10,104	10,104
Fixed rate	443	515	2,045	10,156	13,159	13,159
Total non-derivatives	7,737	754	2,761	12,011	23,263	23,263

(d) Fair value estimation

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

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

32. Share-based payments

(a) Employee Option Plan (closed)

The Pharmaxis Employee Option Plan ("EOP") was approved by shareholders in 1999 and amended by shareholders in June 2003. The company ceased granting market exercise price options under the EOP in October 2009 in favour of Pharmaxis Performance Rights (refer below). The maximum number of options available to be issued under the EOP is 15% of total issued shares including the EOP. All employees and directors were eligible to participate in the EOP, but did so at the invitation of the Board.

The terms of market exercise price options issued were determined by the Board. Options were generally granted for no consideration and vest equally over a four year period. Once vested, the options remain exercisable for up to 10 years from the grant date or termination of employment (whichever is earlier). For options granted after 1 January 2003 the annual vesting is subject to approval by the Remuneration and Nomination Committee of the Board. The Committee gives its approval for vesting based on the achievement of individual employee's personal annual objectives. Options granted under the EOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

32. Share-based payments (continued)

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

Set out below are details of the total number of options exercised during the year and the weighted average share price at exercise date.

	2012	2011
Number of options exercised during the year	**2,880,000**	836,875
Weighted average data:		
Share price at exercise date of options exercised during the year	**$1.05**	$2.58

There were 8,490,063 vested options at 30 June 2012 (10,649,250 at 30 June 2011). Set out below are summaries of options granted under the plan:

Grant Date	**Expiry date**	**Exercise price [(1)]**	**Balance at start of the year**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Balance at end of the year**	**Vested at end of the year**
Consolidated – 2012								
1 Sept 2001	30 Aug 2011	$0.1725	640,000	-	640,000	-	-	-
12 May 2003	30 June 2012	$0.1725	2,140,000	-	2,140,000	-	-	-
12 May 2003	30 Nov 2012	$0.1725	480,000	-	-	-	480,000	480,000
1 July 2003	30 June 2013	$0.1725	180,000	-	-	-	180,000	180,000
4 July 2003	3 July 2013	$0.1725	100,000	-	100,000	-	-	-
9 Dec 2003	30 Nov 2013	$0.2360	250,000	-	-	-	250,000	250,000
4 June 2004	3 June 2014	$0.2860	15,000	-	-	-	15,000	15,000
2 Feb 2005	1 Feb 2015	$0.6940	225,000	-	-	-	225,000	225,000
12 May 2005	11 May 2015	$1.0070	290,000	-	-	-	290,000	290,000
5 Aug 2005	4 Aug 2015	$1.6500	700,000	-	-	40,000	660,000	660,000
17 Oct 2005	16 Oct 2015	$2.6320	30,000	-	-	-	30,000	30,000
13 Feb 2006	12 Feb 2016	$2.0540	35,000	-	-	-	35,000	35,000
1 June 2006	31 May 2016	$1.8940	87,500	-	-	50,000	37,500	37,500
15 Aug 2006	14 Aug 2016	$1.7770	559,750	-	-	2,500	557,250	557,250
26 Oct 2006	14 Aug 2016	$1.7770	210,000	-	-	40,000	170,000	170,000
20 Sept 2006	19 Sept 2016	$1.7518	25,000	-	-	5,000	20,000	20,000
14 Dec 2006	13 Dec 2016	$2.9310	32,500	-	-	7,500	25,000	25,000
18 Jun 2007	17 Jun 2017	$3.1755	132,500	-	-	-	132,500	132,500
10 Aug 2007	9 Aug 2017	$3.2490	1,461,500	-	-	4,500	1,457,000	1,457,000
5 Nov 2007	9 Aug 2017	$3.2490	150,000	-	-	-	150,000	150,000
5 Nov 2007	14 Nov 2016	$3.0858	200,000	-	-	-	200,000	200,000
6 Nov 2007	5 Nov 2017	$4.1500	495,000	-	-	5,000	490,000	490,000
14 Dec 2007	13 Dec 2017	$3.9973	2,000	-	-	-	2,000	2,000
8 Feb 2008	7 Feb 2018	$3.1266	11,000	-	-	3,000	8,000	8,000
11 Apr 2008	10 Apr 2018	$1.9735	14,000	-	-	10,000	4,000	4,000
23 June 2008	22 June 2018	$1.4590	53,500	-	-	52,000	1,500	1,500
23 Oct 2008	22 June 2018	$1.4590	200,000	-	-	-	200,000	200,000
12 Aug 2008	11 Aug 2018	$1.6770	1,200,500	-	-	62,500	1,138,000	1,138,000

32. Share-based payments (continued)

Consolidated - 2012

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
23 Oct 2008	11 Aug 2018	$1.6770	200,000	-	-	-	200,000	200,000
23 Oct 2008	22 Oct 2018	$1.4660	92,500	-	-	32,500	60,000	60,000
11 Dec 2008	10 Dec 2018	$1.0207	35,000	-	-	15,000	20,000	20,000
5 Feb 2009	4 Feb 2019	$1.1980	208,500	-	-	1,000	207,500	155,625
23 Apr 2009	22 Apr 2019	$1.8174	3,750	-	-	-	3,750	2,813
23 Jun 2009	22 Jun 2019	$2.4098	1,502,500	-	-	44,000	1,458,500	1,093,875
21 Oct 2009	22 Jun 2019	$2.4098	200,000	-	-	-	200,000	200,000
Total			12,162,000	-	2,880,000	374,500	8,907,500	8,490,063
Weighted average exercise price			$ 1.764	$ -	$ 0.208	$ 1.822	$ 2.085	$ 2.076

(1) The option exercise price was adjusted by $0.14 following the Entitlement Rights Issue in accordance with the terms and conditions of the Employee Option Plan.

Consolidated - 2011

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
1 Sept 2001	30 Aug 2011	$0.3125	640,000	-	-	-	640,000	640,000
2 Dec 2001	30 Nov 2011	$0.1250	85,000	-	85,000	-	-	-
12 May 2003	30 June 2012	$0.3125	2,440,000	-	300,000	-	2,140,000	2,140,000
12 May 2003	30 Nov 2012	$0.3125	480,000	-	-	-	480,000	480,000
1 July 2003	30 June 2013	$0.3125	180,000	-	-	-	180,000	180,000
4 July 2003	3 July 2013	$0.3125	200,000	-	100,000	-	100,000	100,000
9 Dec 2003	30 Nov 2013	$0.3760	440,000	-	190,000	-	250,000	250,000
4 June 2004	3 June 2014	$0.4260	15,000	-	-	-	15,000	15,000
2 Feb 2005	1 Feb 2015	$0.8340	225,000	-	-	-	225,000	225,000
12 May 2005	11 May 2015	$1.1470	290,000	-	-	-	290,000	290,000
5 Aug 2005	4 Aug 2015	$1.7900	740,000	-	40,000	-	700,000	700,000
17 Oct 2005	16 Oct 2015	$2.7720	30,000	-	-	-	30,000	30,000
13 Feb 2006	12 Feb 2016	$2.1940	35,000	-	-	-	35,000	35,000
1 June 2006	31 May 2016	$2.0340	87,500	-	-	-	87,500	87,500
15 Aug 2006	14 Aug 2016	$1.9170	582,250	-	22,500	-	559,750	559,750
26 Oct 2006	14 Aug 2016	$1.9170	210,000	-	-	-	210,000	210,000
20 Sept 2006	19 Sept 2016	$1.8918	40,000	-	15,000	-	25,000	25,000
14 Dec 2006	13 Dec 2016	$3.0710	32,500	-	-	-	32,500	32,500
18 Jun 2007	17 Jun 2017	$3.3155	142,500	-	-	10,000	132,500	132,500
10 Aug 2007	9 Aug 2017	$3.3890	1,471,500	-	-	10,000	1,461,500	1,461,500
5 Nov 2007	9 Aug 2017	$3.3890	150,000	-	-	-	150,000	150,000
5 Nov 2007	14 Nov 2016	$3.2258	200,000	-	-	-	200,000	200,000
6 Nov 2007	5 Nov 2017	$4.2900	500,000	-	-	5,000	495,000	495,000
14 Dec 2007	13 Dec 2017	$4.1373	2,000	-	-	-	2,000	2,000
8 Feb 2008	7 Feb 2018	$3.2666	11,000	-	-	-	11,000	8,250
11 Apr 2008	10 Apr 2018	$2.1135	14,000	-	-	-	14,000	10,500
23 June 2008	22 June 2018	$1.5990	53,500	-	-	-	53,500	40,125
23 Oct 2008	22 June 2018	$1.5990	200,000	-	-	-	200,000	150,000
12 Aug 2008	11 Aug 2018	$1.8170	1,234,000	-	5,750	27,750	1,200,500	897,875

32. Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated - 2011								
23 Oct 2008	11 Aug 2018	$1.8170	200,000	-	-	-	200,000	150,000
23 Oct 2008	22 Oct 2018	$1.6060	132,500	-	13,500	26,500	92,500	68,125
11 Dec 2008	10 Dec 2018	$1.1607	50,000	-	-	15,000	35,000	26,250
5 Feb 2009	4 Feb 2019	$1.3380	276,000	-	63,750	3,750	208,500	104,250
23 Apr 2009	22 Apr 2019	$1.9574	5,000	-	1,250	-	3,750	1,875
23 Jun 2009	22 Jun 2019	$2.5498	1,561,000	-	125	58,375	1,502,500	751,250
21 Oct 2009	22 Jun 2019	$2.5498	200,000	-	-	-	200,000	-
Total			13,155,250	-	836,875	156,375	12,162,000	10,649,250
Weighted average exercise price			$ 1.693	$ -	$ 0.562	$ 2.256	$ 1.764	$ 1.697

There were 374,500 options forfeited during 2012 (156,375 options during 2011). The weighted average remaining contractual life of share options outstanding at the end of the period was 4.84 years (2011 – 4.68 years).

Fair value of options granted

There were no options granted during the year ended 30 June 2012.

(b) Performance Rights Plan

The Pharmaxis Performance Rights Plan was launched in September 2010 and enables the grant of employee options with a zero grant price and a zero exercise price, known commonly as “Performance Rights” to eligible employees of the Group. Senior Executives will, together with other eligible employees be invited by the Remuneration and Nomination Committee to participate in this plan. The key features of the plan are as follows:

- Grant price and exercise price of zero, with a life of 10 years from grant date.
- The number of performance rights to be granted is determined by the Board, taking into account the employee’s position and responsibility, the employee’s performance, the employee’s salary, and the Pharmaxis share price.
- The vesting of performance rights is set by the Board at an appropriate future date or dates and vesting will only occur if the employee remains an employee of the Group. The performance rights will lapse in the event the employee ceases to be an employee before the vesting date. In 2010 the Board set the vesting term as the third anniversary of the grant date. In 2012 the Board determined to vest half the performance rights two years from the grant date and the other half three years from the grant date. (See comments below on 2012 grant) The Board has not imposed additional performance criteria at the point of vesting in recognition of the initial grant reflecting assessed performance, the restrictions on resale discussed below, and the current stage of the Group’s development.
- Shares issued upon exercise of performance rights are restricted from sale by the employee as follows:
  - for performance rights granted in 2010 shares issued upon exercise are restricted from sale for four years from grant date.
  - for performance rights granted in 2012 shares issued upon exercise are restricted from sale for three years from grant date.
  - Shares issued upon exercise of performance rights to Senior Executive Officers are restricted from sale by the officer as long as they are employed by the Group, without prior approval of the Board. The guidelines under which the Board will determine whether to give its approval include the progress of the Group in achieving its stated goals over the period since grant, the impact of a sale on the market in the Group’s shares, the Pharmaxis share price, and whether it is an appropriate time for such a sale, amongst other criteria.

There were Nil vested performance rights at 30 June 2012. Set out below are summaries of the performance rights granted under the plan:

32. Share-based payments (continued)

Grant Date	Expiry Date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated 2012								
7 Sept 2010	6 Sept 2020	$ -	475,000	-	-	17,000	458,000	-
20 Oct 2010	6 Sept 2020	$ -	50,000	-	-	-	50,000	-
15 Nov 2010	14 Nov 2020	$ -	23,000	-	-	-	23,000	-
24 Jan 2011	23 Jan 2021	$ -	7,000	-	-	-	7,000	-
29 Jun 2012	28 Jun 2022	$ -	-	2,345,000	-	-	2,345,000	-
Total			555,000	2,345,000	-	17,000	2,883,000	-
Consolidated 2011								
7 Sept 2010	6 Sept 2020	$ -	-	483,000	-	8,000	475,000	-
20 Oct 2010	6 Sept 2020	$ -	-	50,000	-	-	50,000	-
15 Nov 2010	14 Nov 2020	$ -	-	23,000	-	-	23,000	-
24 Jan 2011	23 Jan 2021	$ -	-	7,000	-	-	7,000	-
Total			-	563,000	-	8,000	555,000	-

There were 17,000 performance rights forfeited during 2012 (2011: 8,000).

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 9.7 (2011 - 9.2 years).

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2012 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

Year ended 30 June 2012				Year ended 30 June 2011			
Grant date	**No. of options granted**	**Exercise Price**	**Share Price**	**Grant date**	**No. of options granted**	**Exercise Price**	**Share Price**
29 Jun 2012	2,345,000	$ -	$ 1.025	7 Sept 2010	483,000	$ -	$ 1.96
				20 Oct 2010	50,000	$ -	$ 2.76
				15 Nov 2010	23,000	$ -	$ 2.72
				24 Jan 2011	7,000	$ -	$ 2.96
	2,345,000				563,000		

(c) Employee Share Plan

The Pharmaxis Share Plan was launched in September 2010 and will grant up to A$1,000 of fully paid Pharmaxis ordinary shares to eligible employees of the Group. For employees outside of Australia, Pharmaxis Ltd may grant A$1,000 of options (refer note (d) below) in place of ordinary shares. Senior executives do not participate in this plan. Set out below are summaries of employee shares granted under the plan:

	2012	2011
Number of shares issued under the plan to participating employees	**86,000**	43,200

32. Share-based payments (continued)

(d) International Employee Equity Plan

The Pharmaxis International Employee Equity Plan was launched in September 2010 and enables the grant of up to A$1,000 of zero exercise price options to eligible employees outside Australia (referred to herein as 'International ZEPO').

There were Nil vested options at 30 June 2012. Set out below are summaries of the International ZEPO's granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
Consolidated - 2012								
24 Sept 2010	23 Sept 2020	$ -	9,600	-	-	3,360	6,240	-
30 Aug 2011	29 Aug 2021	$ -	-	32,000	-	7,000	25,000	-
Total			9,600	32,000	-	10,360	31,240	-
Consolidated - 2011								
24 Sept 2010	23 Sept 2020	$ -	-	10,080	-	480	9,600	-
Total			-	10,080	-	480	9,600	-

There were 10,360 International ZEPO's forfeited during 2012 (480 International ZEPO's during 2011).

The weighted average remaining contractual life of International ZEPO's outstanding at the end of the period was 8.98 years (2011 – 9.2 years).

Fair value of International ZEPO's granted

The assessed fair value at grant date of International ZEPO's granted during the year ended 30 June 2012 is detailed in the table below. The fair value at grant date is taken as the closing share price on the date of grant.

Year ended 30 June 2012				Year ended 30 June 2011			
Grant date	**No. of options granted**	**Exercise Price**	**Share Price**	**Grant date**	**No. of options granted**	**Exercise Price**	**Share Price**
30 Aug 2011	32,000	$ -	$ 0.991	24 Sept 2010	10,080	$ -	$ 2.069
	32,000				10,080		

(e) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2012	2011
	$'000	$'000
Equity instruments issued under employee equity plans	**956**	1,567

33. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts

	2012	2011
	$'000	$'000
Balance sheet		
Current assets	**86,593**	45,171
Total assets	**137,619**	98,416
Current liabilities	**5,836**	6,388
Total liabilities	**20,954**	22,388
Shareholders' equity		
Issued capital	**344,388**	267,610
Reserves		
Share based payments reserve	**14,719**	13,848
Retained earnings	**(242,442)**	(205,429)
	116,665	76,029
Loss for the year	**(37,013)**	(44,194)
Total comprehensive income	**(37,013)**	(44,194)

(b) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $Nil (30 June 2011 - $Nil). These commitments are not recognised as liabilities as the relevant assets have not yet been received.