



# ANTISENSE THERAPEUTICS

22 August 2003

The Companies Section  
The Australian Stock Exchange Limited  
530 Collins Street  
MELBOURNE VIC 3000

*Total number of pages: 36*

Dear Sir/Madam

**Re: PRELIMINARY FINAL REPORT (APPENDIX 4E) (AUDITED)  
AND OPERATIONS REPORT – 30 JUNE 2003**

In accordance with Listing Rule 4.1 we enclose the Preliminary Final Report (Appendix 4E) (audited) on the results of Antisense Therapeutics Limited ('Antisense Therapeutics') for the year ended 30 June 2003.

The Directors report a loss after income tax for the period of \$6,107,898 (2002: \$6,321,006). The loss is after fully expensing all research and development costs. Antisense Therapeutics has no borrowings and has cash and bank term deposits as at 22 August 2003 amount to \$10.8 million.

The company has made substantial progress in its Research and Development activities over the period under review with a focus on meeting the key project milestones for its lead compounds, ATL1102 and ATL1101. The major achievements announced by the company were:

**Multiple Sclerosis Project (ATL1102)**

- The successful completion of a package of pre-clinical animal trials of ATL's drug for the treatment of multiple sclerosis, ATL1102;
- Confirmation of the site for Phase I clinical trials for ATL1102 and receipt of approval to conduct this trial;
- Completion of manufacture of ATL1102 for use in Phase I and later clinical trials.

**Psoriasis Treatment Project (ATL1101)**

- Selection of ATL1101 lead compound for psoriasis;
- Demonstration that a cream containing ATL1101 can penetrate human psoriasis skin biopsies in the laboratory and silence the target gene IGF-1R;
- Approval of a \$1.1M grant under the Commonwealth Government's R&D Start Program to assist in the development of the psoriasis treatment.

The Company also successfully raised \$4.5 million in an oversubscribed share offer in December 2002.

Subsequent to year end, the company announced the raising of a further \$5 million by the issue of 38.5 million shares at \$0.13 per share in a placement of shares to Australian institutions and professional investors.

Further details regarding the progress of the company's operations are provided in the Operations Report included in the Appendix 4E attached.

This letter and the attached Appendix 4E Preliminary Final Report form part of this announcement to the Australian Stock Exchange Limited.

Yours faithfully  
**Antisense Therapeutics Limited**

**Mark Diamond**  
**Managing Director**

## APPENDIX 4E

### Preliminary Final Report

Name of entity: **ANTISENSE THERAPEUTICS LIMITED**

ABN: 41 095 060 745

Reporting period: **FINANCIAL YEAR ENDED 30 JUNE 2003**

Previous  
Corresponding period: **FINANCIAL YEAR ENDED 30 JUNE 2002**

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1. Results for announcement to the market
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4. Financial Report
5. Other Information

**Note:** The financial figures provided are in **actual** Australian dollars, unless specified otherwise.

## **RESULTS FOR ANNOUNCEMENT TO THE MARKET**

The results of Antisense Therapeutics Limited for the year ended 30 June 2003 are as follows:

<b>Revenues and Results from Ordinary Activities:</b>		<b>Change compared to 2002</b>	<b>2003 \$</b>
Revenues from ordinary activities	Up by \$39,379	10%	448,066
Profit (loss) from ordinary activities after tax attributable to members	Loss has decreased by \$213,108	3%	(6,107,898)
Net profit (loss) for the period attributable to members	Loss has decreased by \$213,108	3%	(6,107,898)
<b>Dividends:</b>			
No dividends have been paid or declared by the entity since the beginning of the current reporting period.			
No dividends were paid for the previous corresponding period.			
<b>Brief Explanation of figures reported above:</b>			
Revenue from ordinary activities increased in the current period due to increased interest income.			
The loss from ordinary activities is after fully expensing research and development expenditure. The reduction in the loss represents the majority of the costs of the manufacture and development of the Multiple Sclerosis ATL1102 drug compound being incurred in the prior period. This decrease has been offset by a full year's amortisation of the intangible asset and a full year of administrative expenses this financial year compared with 7 months in the prior financial year.			
For further details relating to the current period's results, refer to the "Commentary on Results" on the following page.			

## **COMMENTARY ON RESULTS**

(As communicated in the cover letter to this Appendix 4E)

The Directors report a loss after income tax for the period of \$6,107,898 (2002: \$6,321,006). The loss is after fully expensing all research and development costs. Antisense Therapeutics has no borrowings and has cash and bank term deposits as at 22 August 2003 amounted to \$10.8 million.

The company has made substantial progress in its Research and Development activities over the period under review with a focus on meeting the key project milestones for its lead compounds, ATL1102 and ATL1101. The major achievements announced by the company were:

### Multiple Sclerosis Project (ATL1102)

- The successful completion of a package of pre-clinical animal trials of ATL's drug for the treatment of multiple sclerosis, ATL1102;
- Confirmation of the site for Phase I clinical trials for ATL1102 and receipt of approval to conduct this trial;
- Completion of manufacture of ATL1102 for use in Phase I and later clinical trials.

### Psoriasis Treatment Project (ATL1101)

- Selection of ATL1101 lead compound for psoriasis;
- Demonstration that a cream containing ATL1101 can penetrate human psoriasis skin biopsies in the laboratory and silence the target gene IGF-1R;
- Approval of a \$1.1M grant under the Commonwealth Government's R&D Start Program to assist in the development of the psoriasis treatment.

The Company also successfully raised \$4.5 million in an oversubscribed share offer in December 2002.

Subsequent to year end, the company announced the raising of a further \$5 million by the issue of 38.5 million shares at \$0.13 per share in a placement of shares to Australian institutions and professional investors.

Further details regarding the progress of the company's operations are provided in the Operations Report which follows.

## **OPERATIONS REPORT**

### **Overview of Company's Activities**

The company has made substantial progress in its Research and Development activities over the period under review with a focus on meeting the key project milestones for its lead compounds, ATL1102 and ATL1101. The major achievements announced by the company were:

#### Multiple Sclerosis Project (ATL1102)

- The successful completion of a package of pre-clinical animal trials of ATL's drug for the treatment of Multiple Sclerosis, ATL1102;
- Confirmation of the site for Phase I clinical trials for ATL1102 and receipt of approval to conduct this trial;
- Completion of manufacture of ATL1102 for use in Phase I and later clinical trials.

#### Psoriasis Treatment Project (ATL1101)

- Selection of ATL1101 lead compound for Psoriasis;
- Demonstration that a cream containing ATL1101 can penetrate human Psoriasis skin biopsies in the laboratory and silence the target gene IGF-1R;
- Approval of a \$1.1M grant under the Commonwealth Government's R&D Start Program to assist in development of the Psoriasis treatment.

During the period the company successfully raised \$4.5 million in an oversubscribed share offer. On 20 August 2003, the company announced the raising of a further \$5 million in a share placement to Australian institutions and professional investors.

### **Antisense Therapeutics' Mission**

ATL's mission is to create, develop and commercialise novel antisense pharmaceuticals. Our primary focus is to progress our two lead compounds (ATL1102 and ATL1101) through research and clinical trials with the aim of providing new and improved therapies for the treatment of Multiple Sclerosis and Psoriasis respectively, and to support these lead compounds by building a pipeline of additional antisense compounds.

### **Antisense Technology - How It Works**

Proteins play a central role in virtually every aspect of human biology. Each of our genes is a set of instructions for, and control of, the manufacture inside the cell of a particular unique protein. Conventional pharmaceutical drugs typically bring about their desired therapeutic effect by binding to a target protein directly, to interfere with its action.

Antisense drugs are synthetic, DNA-like compounds designed for use as medicines, which block disease processes with extraordinary precision. Unlike conventional small-molecule medicines, the discovery of which requires time-consuming and laborious trial-and-error, antisense medicines are rationally designed by directly exploiting the huge body of genetic information now available from the human genome project. Compared to conventional drugs antisense aims to provide faster, more predictable drug discovery, with increased specificity of action and uniformity of methods of manufacture, formulation and delivery.

Antisense drugs have the potential to treat a wide range of conditions and diseases including autoimmune, infectious, inflammatory, dermatological, metabolic and cardiovascular diseases as well as cancer. There are currently over 20 antisense drugs in clinical trials worldwide to treat various diseases, with more than half of these in Phase II or later stage clinical development. While there is already one antisense drug approved for clinical use, it is anticipated that several more will enter the market over the next few years.

## **Overall Operating Strategy**

ATL's strategy is:

- to gain access to the best enabling antisense technologies through partnership with key antisense technology leaders;
- to create candidate antisense drugs for diseases where there are large and/or poorly met markets, in collaboration with ATL's technology and research partners;
- to out-source pre-clinical and clinical testing of the candidate drugs to expert contractors; and
- to commercialise the drugs that are shown to be successful through licensing deals or other partnerships with major pharmaceutical companies.

The company's "virtual structure" minimises infrastructure and overhead costs. This is achieved by working with contractors and consultants on a worldwide basis in order to gain access to the best possible expertise in each area of the company's development operations. These outsourcing activities are closely controlled by the company's management who have extensive experience in the research and clinical development of pharmaceutical products.

A key aspect to the company's out-sourcing strategy is the collaborations it has developed with Isis Pharmaceuticals Inc ("Isis") and the Murdoch Childrens Research Institute ("MCRI") who are at the same time major shareholders in ATL. The company has made substantial technical progress with its developments over the period under review due to the commitment and expertise of its collaboration partners.

### ***Isis Strategic Partnership***

A fundamental element of the ATL strategy is its access to state of the art antisense technology, both in respect of know-how and intellectual property to accelerate drug discovery and development. As a leader in the field, Isis is the ideal technology partner for ATL. Isis currently has one antisense drug on the market (Vitravene™) and seven compounds in late stage clinical development. Isis has several partnerships with major pharmaceutical companies.

The collaboration agreement with Isis provides ATL with an extensive package of access to Isis's antisense drug discovery technology to commercialise antisense drugs to a number of protein targets including IGF-1R for Psoriasis and an exclusive license to ATL1102, which ATL is currently progressing into clinical development for Multiple Sclerosis. Isis has already manufactured batches of bulk drug product and will be available to manufacture further quantities for use in clinical trials for ATL.

The collaboration agreement with Isis also provides access to and assistance in expanding ATL's drug pipeline including the rapid generation of antisense lead compounds to the Company's potential therapeutic targets.

### ***MCRI Strategic Collaboration***

The MCRI, based at the Royal Children's Hospital in Melbourne is a major Australian research institute with over 450 staff and operates as an independent non-profit organisation.

ATL has entered into agreements with the MCRI by which it has obtained the exclusive worldwide rights to commercialise antisense drugs for Psoriasis and other skin diseases. As part of its research agreement with ATL, the MCRI provides scientific support of the pre-clinical and clinical development, including laboratory testing of the Isis-generated drugs and formulations. MCRI is also generating laboratory data on antisense treatments in other skin disorders.

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## **Projects Update**

### **Multiple Sclerosis: ATL1102**

#### ***Background***

Multiple Sclerosis (MS) is a life-long, chronic, incurable disease, which progressively destroys the central nervous system, commonly diagnosed between the ages of 20 and 40 years. The disease affects about 400,000 people in the US where the estimated annual healthcare cost associated with the disease in 2002 was US\$2.5 billion. Although current treatments are unable to slow disease progression, the aims of therapy are to reduce the duration, frequency and severity of the attacks.

The development of improved Multiple Sclerosis medications is a high opportunity area. There is no cure for MS – the goals of therapy are to improve recovery from attacks, to prevent or lessen the number of relapses and their severity, and to reduce disease progression. Until recently steroids were the principal medications for MS – while steroids cannot affect the progression of MS, they can reduce the duration of attacks. Interferon beta drugs appeared on the market in the early 1990's, but their longer-term therapeutic benefits are unclear.

ATL1102 is a drug under development by ATL, which aims to prevent the synthesis of a protein called VLA-4, known to play a part in both the onset and progression of MS.

Clinical evidence for VLA-4 target activity in Multiple Sclerosis has been demonstrated by the monoclonal antibody drug, Antegren™, currently being developed by US based biopharmaceutical company, Biogen, which is being assessed in Phase III human trials. By contrast to acting on the VLA-4 protein after it is produced, ATL1102 is designed to block the production of that disease causing protein before it can inflict further damage. Advantages of ATL1102 over an antibody product may potentially include efficacy, dosing route and cost of therapy.

#### ***Progress***

In October 2002, ATL announced the successful completion of a package of preclinical (animal) studies, which enabled ATL to submit an application to the Charterhouse Clinical Research Unit at the Stamford Hospital in London ("Charterhouse") to conduct a Phase I clinical trial to assess the safety and disposition (pharmacokinetics) of ATL1102 in human volunteers. Approval was received from Charterhouse in February 2003 to conduct this Phase I study.

The production of injectable formulations of ATL1102 suitable for use in Phase I clinical trials was contracted out to a FDA compliant US manufacturer. Although unforeseen events in the manufacturing process led to delays, the manufacture is now complete.

As required by regulations, the manufactured formulations underwent full quality testing at a contract organisation in the USA. Quality testing involves the evaluation of the formulated product to ensure it meets product specifications. This program of work was completed in August 2003 and the products have been certified for 'release'. The formulations have been shipped to Charterhouse in London to commence the Phase I clinical trial, which is scheduled to commence in late August 2003.

#### ***Outlook***

Upon successful completion of the Phase I clinical trial, it is anticipated that an application will be made in 2004 for a Phase IIa trial to assess preliminary efficacy in patients with MS.

## **Psoriasis: ATL1101**

### ***Background***

Psoriasis is a chronic non-contagious skin disorder, which affects around 2% of the population. While the precise cause of Psoriasis is unknown, it is thought to be triggered by an immune system defect leading to excessive skin cell division. When severe, 15-20% of the person's body may be affected. The white scales that usually cover the lesion are composed of dead skin cells, and the redness of the lesion is caused by increased blood supply to the area of rapidly dividing skin cells.

The worldwide market for Psoriasis treatments was valued at US\$500 million in 2002 and there is an acknowledged unmet medical need for more effective and safer treatments. The market is forecast to grow beyond US\$2 billion by 2007 ("Frost & Sullivan") with the emergence of new effective treatments.

In the absence of a cure, the goal for a Psoriasis treatment is to reduce inflammation and/or to slow down rapid skin cell division to decrease the extent of skin lesions. While there are a number of treatments on the market today, most have limited efficacy or side-effect profiles, which restrict their usefulness. There is a range of new treatments undergoing clinical trials, some of which should be expected to reach the market. These include systemic injected drugs based on monoclonal antibodies designed to interfere with specific parts of the immune system thought to be important in the development of Psoriasis. Whether any of these drugs will offer an improvement to existing therapies is not yet known. Despite the wide range of current treatment choices and the treatments in development, 2% of the world's population awaits an effective treatment for Psoriasis.

ATL1101 is an antisense drug designed to silence the gene for the insulin-like growth factor-I receptor (IGF-Ir). IGF-Ir's pivotal role in the regulation of cell overgrowth in Psoriasis was established by our research partner, the Murdoch Childrens Research Institute. ATL1101 is being developed for topical application and is intended as a first line therapy.

### ***Progress***

The ATL1101 lead compound was selected in the third quarter of 2002 on schedule and a topical formulation containing ATL1101 was prepared using Isis Pharmaceuticals, Inc proprietary formulation expertise.

A significant milestone was achieved in the second quarter of 2003 with the demonstration that the cream containing ATL1101 can penetrate human Psoriasis skin biopsies in the laboratory and silence the target IGF-Ir. The laboratory result provided increased confidence that ATL1101 may be effective as a topical cream formulation to treat Psoriasis.

In May 2003, the Psoriasis project was awarded a grant under the Commonwealth Government R&D Start Program. The grant will provide \$1.1M in dollar-for-dollar funding for the financial year 2003/2004. The awarding of this grant provides validation of the scientific, clinical and commercial potential of the Psoriasis project.

The research team at the MCRI has also been actively investigating the application of ATL1101 in other skin disorders. Laboratory experiments to confirm the potential effectiveness of ATL1101 in these disorders are well advanced. The company will announce details of these investigations once the data has been generated and assessed.

### ***Outlook***

The next stage of development for ATL1101 is the undertaking of a "proof of concept" study which is an accelerated path to testing the activity of ATL1101 in humans suffering from Psoriasis.

In this “proof of concept” study, also referred to as the Small Plaque Assay (SPA), ATL1101 will be topically applied to a limited number of patients in relatively small quantities to defined areas of psoriatic skin. The SPA is designed to carefully monitor and also restrict the extent of patients’ exposure to the test compound.

Typically a drug’s activity is not established until completion of Phase II clinical trials. However, a “proof of concept” study can be undertaken relatively inexpensively for a disease such as Psoriasis (unlike for many other diseases), which will provide early evidence of the effectiveness of ATL1101. While the SPA will not replace the requirement to undertake formal (Phase I, II and III) human clinical trials, if early indications of the drug’s effectiveness are shown, the company will have increased confidence in the prospects for successful commercial development of ATL1101, and excellent data with which to pursue potential early partnering opportunities.

The manufacture of the drug product and the required precursory toxicology program are expected to be completed in the first half of 2004, after which an application for approval to commence the SPA may be submitted. Once this approval is received, the “proof of concept” study in Psoriasis patients should commence in mid to late 2004.

## **Other Research Projects**

### ***Background***

The company has agreed a list of exciting research targets with Isis, and can during the research and development phase, select a certain number of those with the most potential to exclusively commercialise. ATL is focusing on potential therapeutic drug targets from published scientific and clinical research where ATL’s analysis shows that these targets may be suitable for intervention with antisense drugs and where an antisense drug may have an advantage over existing treatments or those in development.

As stated earlier, ATL has acquired from Isis an exclusive right to research these targets using the Isis technology, and in accordance with the ATL/Isis contracts, antisense compounds to these targets are being created by Isis for ATL. ATL are contracting with local and international expert groups to assess the efficacy of these antisense compounds in the relevant animal models. When efficacy in animals is established, ATL will elevate the most promising drugs to its development pipeline for trials in humans.

### ***Progress***

ATL has research projects on its pipeline antisense inhibitors at various stages of completion in animal disease models. Early indications are that at least one of these compounds has shown efficacy comparable to leading therapies for its given disease indication; studies in other disease areas are underway. All disease indications under investigation at ATL have significant unmet therapeutic markets, and with the inherent safety and dosing advantages of antisense drugs over conventional therapies, we believe our pipeline research activities may generate interest once follow-up studies and patent filings have been completed.

It is important to note that these research outcomes can be achieved in a highly expeditious manner and at a relatively low cost, which is a key feature of utilizing the 2<sup>nd</sup> generation antisense chemistry available to us via our strategic collaboration with Isis.

### ***Outlook***

Following completion of the efficacy studies currently in progress and additional pilot efficacy studies during the 2003/2004 financial year, a select number of successful candidates may then be progressed into formal pre-clinical development. ATL intends to announce details of the specific disease indications together with the lead compounds once relevant patent applications have been lodged.

ATL will critically assess the results of these studies and determine on a case by case basis whether further development work will be undertaken by ATL or alternatively out-license to other pharmaceutical companies in return for licensing income.

### **Partnering Opportunities**

As stated earlier, the company's strategy is to commercialise its drug pipeline products through collaborations with major pharmaceutical companies. Given the quality of the targets and the known commercial appeal of antisense there is likely to be potential interest in both ATL1101 and ATL1102 as they progress successfully through development. The company will discuss its technology on an ongoing basis with selected interested companies in order to broaden the awareness of its activities in preparation for potential future licensing or other partnership discussions. The company also plans to pursue partnering opportunities for select pipeline compounds that are at an earlier stage of development (pre-clinical).

### **Financial Position**

As stated in the Director's Report, the company's current cash reserves are expected to be sufficient for the planned activities until the end of 2004 if it continues to take advantage of the potential of antisense technology to move quickly from drug discovery to developing therapies (note that the company does, however, have the flexibility to delay research and development expenditure until sufficient funds are available). In order for the company to progress its projects beyond this time as described in the respective projects' "Outlook" sections, the company will be required to raise further capital.

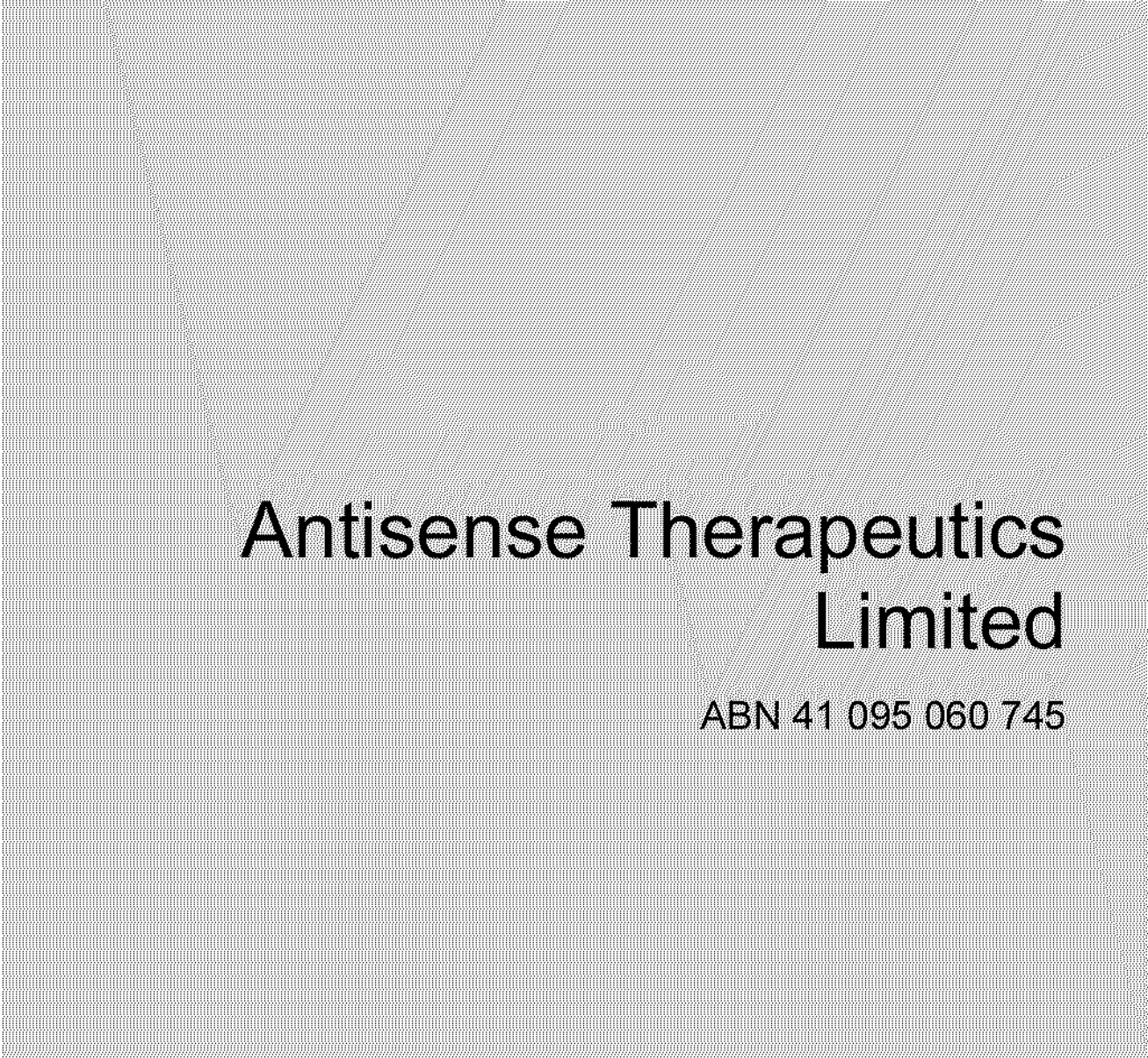
In relation to the proposed use of funds described above, it should be recognised that there will typically be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material

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### **Biotechnology Companies – Inherent Risks**


Some of the risks inherent in the development of a product to a marketable stage include the uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, the obtaining of the necessary drug regulatory authority approvals and difficulties caused by the rapid advancements in technology. Also a particular compound may fail the clinical development process through lack of efficacy or safety. Companies such as Antisense Therapeutics Limited are dependent on the success of their research projects and on the ability to attract funding to support these activities. Investment in research and development projects cannot be assessed on the same fundamentals as trading and manufacturing enterprises. Thus investment in these areas must be regarded as speculative taking into account these considerations.

This annual report may contain forward-looking statements regarding the potential of the company's projects and interests and the development and therapeutic potential of the company's research and development. Any statement describing a goal, expectation, intention or belief of the company is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those inherent in the process of discovering, developing and commercializing drugs that are safe and effective for use as human therapeutics and the financing of such activities. There is no guarantee that the company's research and development projects will be successful or receive regulatory approvals or prove to be commercially successful in the future. Actual results of further research could differ from those projected or detailed in this report. As a result, you are cautioned not to rely on forward-looking statements. Consideration should be given to these and other risks concerning the company's research and development program referred to in this Operations Report and in the company's Directors' Report as contained in this annual report for the period ended 30 June 2003.



Antisense Therapeutics  
Limited

ABN 41 095 060 745



Annual Financial Report  
for the year ended 30 June 2003

## Independent Audit Report

To members of Antisense Therapeutics Limited

### Scope

#### *The financial report and directors responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Antisense Therapeutics Limited, for the year ended 30 June 2003.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

### **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our statutory audit work, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### **Audit opinion**

In our opinion, the financial report of Antisense Therapeutics Limited is in accordance with:

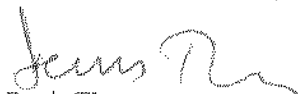
- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of Antisense Therapeutics Limited at 30 June 2003 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

### **Inherent Uncertainty Regarding Continuation of Going Concern**

Without qualification to the opinion expressed above, your attention is drawn to the following matter set out in Note 1(b) to the financial statements. As a result of the matters described in Note 1(b), because of the development stage of the company's operations and the need for future capital raisings, there is significant uncertainty whether the company will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classifications of liabilities that might be necessary should the company not continue as a going concern.



Ernst & Young



Denis Thorn

Partner

Melbourne

22 August 2003

## Statement of Financial Position

AT 30 JUNE 2003	Note	2003 \$	2002 \$
<b>CURRENT ASSETS</b>			
Cash assets	14(a)	6,545,567	9,373,050
Receivables	3	68,730	53,196
Other	4	878,941	140,030
Total Current Assets		<u>7,493,238</u>	<u>9,566,276</u>
<b>Non-Current Assets</b>			
Plant & equipment	5	50,911	52,440
Intangible assets	6	4,438,000	5,715,500
Total Non-Current Assets		<u>4,488,911</u>	<u>5,767,940</u>
Total Assets		<u>11,982,149</u>	<u>15,334,216</u>
<b>CURRENT LIABILITIES</b>			
Payables	7	326,302	1,837,089
Provisions	8	38,101	15,415
Tax liabilities		-	-
Total Current Liabilities		<u>364,403</u>	<u>1,852,504</u>
Total Liabilities		<u>364,403</u>	<u>1,852,504</u>
Net Assets		<u>11,617,746</u>	<u>13,481,712</u>
<b>EQUITY</b>			
Contributed equity	9	23,714,504	19,470,572
Reserves	10	725,885	725,885
Accumulated losses	11	(12,822,643)	(6,714,745)
Total Equity		<u>11,617,746</u>	<u>13,481,712</u>

## Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2003	Note	2003 \$	2002 \$
<b>Revenue from ordinary activities</b>	2	<b>448,066</b>	<b>408,687</b>
Administrative expenses		(1,470,924)	(781,132)
Occupancy expenses		(46,829)	(24,638)
Patent expenses		(25,295)	(36,220)
Research and development expenses		(3,728,617)	(5,132,420)
Research and development expenses – amortisation of intellectual property	2	(1,277,500)	(672,000)
Business development expenses		-	(74,568)
Borrowing costs	2	(1,519)	(4,715)
Other expenses from ordinary activities	2	(5,280)	(4,000)
<b>Loss from ordinary activities before income tax expense</b>		<b>(6,107,898)</b>	<b>(6,321,006)</b>
Income tax expense relating to ordinary activities	12	-	-
<b>Loss from ordinary activities after related income tax expense</b>		<b>(6,107,898)</b>	<b>(6,321,006)</b>
<b>Net loss</b>		<b>(6,107,898)</b>	<b>(6,321,006)</b>
Increase in option reserve	10	-	725,885
Share issue costs	9	(277,359)	(717,549)
Total revenues, expenses and valuation adjustments attributable to members of Antisense Therapeutics Limited and recognised directly in equity		(277,359)	8,336
Total changes in equity other than those resulting from transactions with owners as owners		(6,385,257)	(6,312,670)
Basic earnings per share (cents per share)	13	(2.46)	(3.81)
Diluted earnings per share (cents per share)	13	(2.46)	(3.81)

The accompanying notes form an integral part of this Statement of Financial Performance.

## Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2003	Note	2003 \$	2002 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Payments to suppliers, employees and for research and development		(7,351,299)	(4,394,877)
Interest received		352,771	249,747
Bank finance charges		(1,488)	(4,715)
Other income received		-	91,632
Net cash flows used in operating activities	14(b)	<u>(7,000,016)</u>	<u>(4,058,213)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(23,332)	(51,539)
Proceeds from sale of plant and equipment		1,680	4,000
Net cash flows used in investing activities		<u>(21,652)</u>	<u>(47,539)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings – associated entities		-	100,000
Repayment of borrowings – associated entities		-	(138,382)
Proceeds from issue of shares and options		4,521,291	13,589,760
Payment of share and option issue costs		(327,106)	(707,917)
Net cash flows from financing activities		<u>4,194,185</u>	<u>12,843,461</u>
Net increase/(decrease) in cash held		(2,827,483)	8,737,709
Cash at the beginning of the financial year		9,373,050	635,341
Cash at the end of the financial year	14(a)	<u>6,545,567</u>	<u>9,373,050</u>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2003

## NOTE 1(A) STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (i) Basis of Accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable accounting standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has also been prepared in accordance with the historical cost convention.

The prior year comparatives relate to the financial performance from December 2001 following listing of the company on the Australian Stock Exchange.

### (ii) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except for the accounting policy with respect to the employee benefits.

The entity has adopted the revised Accounting Standard AASB 1028 “Employee Benefits”, which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled.

There has been no material impact on retained profit and employee benefit liabilities at the beginning of the year.

### (iii) Income Tax

The financial statements apply the principles of tax-effect accounting. The income tax benefit in the Statement of Financial Performance represents the tax on pre-tax accounting loss adjusted for income and expenses never to be assessed or allowed for taxation purposes. The provision for deferred income tax liability and future income tax benefit (as disclosed, but not recognised in the Statement of Financial Position) include the tax effect of differences between income and expenses recognised in different accounting periods for book and tax purposes, calculated at the tax rates expected to apply when the differences reverse.

The future income tax benefits relating to tax losses and timing differences have not been recognised as an asset as there is no virtual certainty of realisation.

### (iv) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Cash flows arising from operating activities are included in the Statement of Cash Flows on a gross basis (i.e. including GST) and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**NOTE 1(A) STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(v) Plant and Equipment**

Plant and equipment are measured at cost and are depreciated over their useful economic lives as follows:

	<b>Life</b>	<b>Method</b>
Equipment and furniture	3-5 years	Straight line

**(vi) Recoverable amounts of non-current assets**

All non-current assets are reviewed annually to determine whether their carrying amounts require write down to recoverable amount.

**(vii) Research and Development**

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

Patent costs are expensed as incurred.

**(viii) Employee Benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against profits/losses on a net basis in their respective categories.

The value of the equity-based compensation scheme described in note 20 is not being recognised as an employee benefits expense.

**(ix) Employee Option Ownership Schemes**

Certain employees are entitled to participate in option ownership schemes. The details of the schemes are described in Note 20. No remuneration expense is recognised in respect of employee options issued.

**(x) Financial Instruments Included in Equity**

Ordinary share capital is recorded at the amount received on issue, less any share issue costs. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

**NOTE 1(A) STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(xi) Financial Instruments Included in Assets**

Cash in bank and short-term deposits are stated at nominal value. Interest revenue is recognised on an effective yield basis.

**(xii) Foreign Currencies**

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the company outstanding at reporting date and denominated in foreign currencies have been converted to local currency using rates prevailing at the end of the financial year.

**(xiii) Earnings per share**

Basic EPS is calculated as net loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(xiv) Operating Leases**

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

**(xv) Intangible assets**

Intangible assets are amortised on a straight line basis over the term of the rights granted, which is currently expected to be five years. The unamortised balance of intangible assets is reviewed at each balance date and charged to the Statement of Financial Performance to the extent that applicable future benefits are no longer probable.

**(xvi) Payables**

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

**(xvii) Borrowing costs**

Borrowing costs are expensed as incurred.

**(xviii) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**NOTE 1(A) STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(xix) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest*

Control of the right to receive the interest payment.

**(xx) Cash and Cash Equivalents**

Cash on hand and in banks and short-term deposits are stated at nominal value.

**NOTE 1(B) INHERENT UNCERTAINTY - GOING CONCERN**

This financial report has been prepared on a going concern basis. In common with start-up biotechnology companies:

- the company's operations are subject to considerable risks due primarily to the nature of research, development and commercialisation to be undertaken; and
- the going concern basis assumes that the existing cash reserves and future capital raisings will be sufficient to enable the company to successfully execute its existing and future plans.

The financial statements take no account of the consequences, if any, of the effects of unsuccessful product development or commercialisation nor of the inability of the company to obtain adequate funding. The ability of the company to realise the carrying value of the intangible asset is subject to the successful operation of the company's existing and future plans.

NOTE 2. REVENUE AND EXPENSES	2003	2002
	\$	\$
<b>Revenues from ordinary activities:</b>		
Interest from external parties	355,029	289,819
Foreign exchange gains:		
Unrealised	16,832	23,236
Realised	74,525	91,632
Proceeds from the disposal of plant and equipment (a)	1,680	4,000
<b>Total revenues from ordinary activities</b>	<u>448,066</u>	<u>408,687</u>
<b>Expenses and Losses:</b>		
Depreciation of:		
- Equipment and furniture	18,854	9,818
Borrowing costs:		
- Interest and bank charges	1,519	4,715
Operating lease rentals:		
Minimum lease payments	39,475	22,679
Amortisation of intangibles	1,277,500	672,000
Other expenses comprising of:		
Written down value of plant and equipment (a)	5,280	4,000
(a) Net loss on disposal of plant and equipment	3,600	-

	2003 \$	2002 \$
<b>NOTE 3. RECEIVABLES (CURRENT)</b>		
Interest receivable - bank	43,225	40,967
Input tax credits	25,351	12,075
TFN withholding tax	154	154
Total receivables	<u>68,730</u>	<u>53,196</u>
<b>NOTE 4. OTHER ASSETS (CURRENT)</b>		
Prepayments	873,294	136,781
Other	5,647	3,249
Total other assets	<u>878,941</u>	<u>140,030</u>
<b>NOTE 5. PLANT AND EQUIPMENT</b>		
<i>Equipment and furniture at cost</i>		
Opening balance	63,645	16,106
Additions	22,605	51,539
Disposals	(7,701)	(4,000)
Closing balance	<u>78,549</u>	<u>63,645</u>
<i>Accumulated Depreciation</i>		
Opening balance	(11,205)	(1,387)
Depreciation for the period	(18,854)	(9,818)
Disposals	2,421	-
Closing balance	<u>(27,638)</u>	<u>(11,205)</u>
Net book value	<u>50,911</u>	<u>52,440</u>

	2003 \$	2002 \$
<b>NOTE 6. INTANGIBLE ASSETS</b>		
Intellectual property (a)	6,387,500	6,387,500
Accumulated amortisation	<u>(1,949,500)</u>	<u>(672,000)</u>
Closing balance	<u>4,438,000</u>	<u>5,715,500</u>

(a) The intangible assets relate to certain rights granted to Antisense Therapeutics Limited by Isis Pharmaceuticals Inc. and The Murdoch Childrens Research Institute upon listing of the company. The main features of the agreements with the aforementioned entities, respectively, are as follows:

- Isis Pharmaceuticals Inc. (“Isis”) has granted Antisense Therapeutics Limited rights to use Isis technology (i.e. Isis’ patented technology) to commercialise antisense drugs to a number of protein targets (i.e. a research licence for each protein target). A certain number of these research licences to protein targets are also extendible to commercialisation licences.

The agreements with Isis provide access to and assistance in expanding Antisense Therapeutics Limited’s drug pipeline and also provide access to and assistance in the company’s development projects including an exclusive license to a multiple sclerosis drug in Isis’ preclinical pipeline; access to Isis manufacturing for provision of bulk quantities of antisense compounds for clinical trials; and access to Isis’ preclinical development services for a sufficient period to allow smooth technology transfer.

- Antisense Therapeutics Limited’s agreement with the Murdoch Childrens Research Institute provides the company with worldwide exclusive licences to patents covering antisense directed at a certain target for dermatological applications including psoriasis. The company’s agreement with the Murdoch Childrens Research Institute also provides Antisense Therapeutics Limited with scientific support in the clinical development of a compound for psoriasis and other dermatological indications, and the testing of additional antisense compounds to be directed at other dermatological protein targets.

**NOTE 7. PAYABLES (CURRENT)**

Accrued expenses (unsecured) (a) (b)	326,302	1,820,499
Superannuation payable	<u>-</u>	<u>16,590</u>
Total current payables	<u>326,302</u>	<u>1,837,089</u>

(a) Accrued expenses are non-interest bearing and are normally settled on 30 day terms.

**NOTE 8. PROVISIONS (CURRENT)**

Employee entitlement (annual leave)	<u>38,101</u>	<u>15,415</u>
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	2003 \$	2002 \$
Issued and paid up capital	<u>23,714,504</u>	<u>19,470,572</u>

**(a) Movement in Issued Shares**

	2003		2002	
	No of Shares	\$	No of Shares	\$
Balance at beginning of year	215,003,110	19,470,572	108,750,005	1,000,001
Issued during the year (i)	60,275,268	4,520,645	106,250,005	19,187,500
Transaction costs arising on share issues	-	(277,359)	-	(717,549)
Exercise of options	3,230	646	3,100	620
Balance at year end	<u>275,281,608</u>	<u>23,714,504</u>	<u>215,003,110</u>	<u>19,470,572</u>

(i) The following shares were issued on 9 December 2002:

- 39,608,602 fully paid ordinary shares at 7.5 cents per share pursuant to the Company's Offer Information Statement dated 1 November 2002.
- 10,333,333 fully paid ordinary shares at 7.5 cents per share to Polychip Pharmaceuticals Pty Ltd, and
- 10,333,333 fully paid ordinary shares at 7.5 cents per share to Isis Pharmaceuticals Inc.

	2003 \$	2002 \$
Option Reserve	<u>725,885</u>	<u>725,885</u>

The option reserve represents amounts received as consideration for options issued.

**(a) Movement in Option Reserve**

	2003		2002	
	No of Options	\$	No of Options	\$
Balance at beginning of period	125,422,895	725,885	-	-
Issued during the period	-	-	125,425,995	789,760
Less costs	-	-	-	(63,875)
Exercise of options	(3,230)	-	(3,100)	-
Balance at period end	<u>125,419,665</u>	<u>725,885</u>	<u>125,422,895</u>	<u>725,885</u>



	2003 \$	2002 \$
<b>NOTE 12. INCOME TAX</b>		
The prima facie tax, using the tax rate applicable in the country of operation, on loss differs from the income tax provided in the financial statements as follows:		
Loss from ordinary activities	<u>(6,107,898)</u>	<u>(6,321,006)</u>
Prima facie income tax benefit calculated at 30%	(1,832,369)	(1,896,302)
Tax effect of permanent and other differences:		
Research and development	(77,569)	(57,138)
Amortisation of intellectual property	383,250	201,600
Amortisation of equity raising costs	(67,360)	-
Amount (over)/under provided in prior years	316,519	(4,594)
Other	<u>312</u>	<u>188</u>
Income tax benefit adjusted for permanent and other differences	(1,277,217)	(1,756,246)
Benefit of tax losses not brought to account	<u>1,277,217</u>	<u>1,756,246</u>
Total income tax benefit attributable to operating loss	<u>-</u>	<u>-</u>
The estimated potential future income tax benefit at period end calculated at 30% in respect of tax losses not brought to account is:	<u>3,151,839</u>	<u>1,868,594</u>

The estimated potential future income tax benefit not recognised at period end in respect of timing differences for the company amounted to \$4,082 (2002: \$1,946).

The benefits of the tax losses and timing differences will only be realised if:

- (i) the company derives future assessable income of a nature and amount sufficient to enable the benefit of the taxation deductions to be realised;
- (ii) the company continues to comply with the conditions for deductibility imposed by law; and
- (iii) there are no changes in taxation legislation adversely affecting the company in realising the benefit from the deductions for the losses.

	2003 \$	2002 \$
<b>NOTE 13. EARNINGS PER SHARE</b>		
Basic earnings per share (cents per share)	(2.46)	(3.81)
Diluted earnings per share (cents per share)	(2.46)	(3.81)
(a) Loss used in calculating basic and diluted earnings per share(enumerator)	(6,107,898)	(6,321,006)
(b) Number of Ordinary Shares Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share (denominator)	248,528,386	165,885,100
(c) Potential Ordinary Shares Not Considered Dilutive All potential ordinary shares, being options to acquire ordinary shares, are not considered dilutive for the year ended 30 June 2003.		
(d) There have been no other conversions to, calls of, or subscription for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report		

	2003 \$	2002 \$
<b>NOTE 14. NOTES TO THE STATEMENT OF CASH FLOWS</b>		

**(a) Reconciliation of Cash**

For the purpose of the Statement of Cash Flows, cash includes cash at bank and deposits at call. Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	1,545,567	1,873,050
Term Deposits (i)	5,000,000	7,500,000
	<u>6,545,567</u>	<u>9,373,050</u>

- (i) Term deposits are with a major bank and are short term. The bank pays interest at current bank deposit rates. At year end the average rate was 4.68%

**(b) Reconciliation of the net loss after tax to the net cash flows from operations**

Net loss	(6,107,898)	(6,321,006)
<b>Non-cash items</b>		
Unrealised foreign exchange gain	(16,832)	(23,236)
Amortisation of intangibles	1,277,500	672,000
Depreciation expense	18,854	9,818
Loss on disposal of asset	3,600	-
<b>Changes in assets and liabilities</b>		
Increase in current receivables	(15,534)	(140,030)
Increase in other current assets	(738,911)	(42,534)
Increase (decrease) in payables	(1,443,480)	1,771,360)
Increase in employee provisions	22,686	15,415
Net operating cash flows	<u>(7,000,016)</u>	<u>(4,058,213)</u>

**NOTE 15. RELATED PARTY DISCLOSURES**

**(a) Directors**

The following persons held the position of director of Antisense Therapeutics Limited during the financial year:

Chris Belyea  
 Robert Moses  
 Graham Mitchell  
 Stanley Crooke  
 George Werther  
 Mark Diamond

**(b) Directors' share and option holdings**

	Shares/options issued	
	2003	2002
	\$	\$
<b>(i) Ordinary share options</b>		
Share options issued during the year		
- directly	-	9,772,500
- indirectly	-	20,277,000
	<u>-</u>	<u>30,049,500</u>
Share options outstanding at year end held by directors	9,772,500	9,772,500
Share options outstanding at year end held indirectly by directors	20,277,000	20,277,000
	<u>30,049,500</u>	<u>30,049,500</u>
<b>(ii) Ordinary shares</b>		
Ordinary shares acquired by the directors from the entity during the year:		
- directly	26,666	425,000
- indirectly	10,333,333	30,500,000
	<u>10,359,999</u>	<u>30,925,000</u>
Ordinary shares held by directors at the end of the year	451,666	425,000
Ordinary shares held indirectly by directors at the end of the year	40,833,333	30,500,000
	<u>41,284,999</u>	<u>30,925,000</u>

**(c) Transactions and Balances with Related Parties**

The following transactions and balances were held with related parties during the year ended 30 June 2003:

- (i) Dr Stanley Crooke, a director of the company is also a director of Isis Pharmaceuticals Inc ('Isis'). During the year Isis provided various research and development related services, including manufacture of compound, to the company. The company paid Isis \$3,542,839 for these services and at year end owes Isis \$117,372 for services not invoiced.
- (ii) Professor George Werther, a director of the company is an executive officer of the Murdoch Children's Research Institute ('MCRI'). During the year the MCRI provided research services in accordance with the Research Agreement entered into between the MCRI and the company. The company paid the MCRI \$1,399,557 for these services of which \$815,156 were incurred and expensed as a research and development costs. The remaining balance of \$584,401 has been treated as a prepayment at year end.
- (iii) Payments were made to Metabolic Pharmaceuticals Limited ('Metabolic') during the year as reimbursement for various administrative costs. Dr Chris Belyea, a non-executive director of the company is also the managing director of Metabolic. The total amount paid to Metabolic during the year was \$6,382.

	2003	2002
	\$	\$

**NOTE 16. REMUNERATION OF DIRECTORS**

Income paid or payable, or otherwise made available in respect of the financial year to all directors, directly or indirectly by the company:	364,625	258,112
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The number of executive and non-executive directors whose income (including superannuation contributions) falls within the following bands is:

	2003	2002
	No.	No.
	(a)	
\$0 - \$9,999	-	3
\$10,000 - \$19,999	-	3
\$20,000 - \$29,999	4	1
\$30,000 - \$39,999	1	-
\$60,000 - \$69,999	-	1
\$100,000 - \$109,999	-	1
\$210,000 - \$219,999	1	-

**(a) No options were granted to directors and offices during the year ended 30 June 2003.**

ASIC's "Media release 03-202 Valuing options for directors and executives" provides guidelines for Australian listed companies on how to value options and similar equity instruments in the disclosure of director and executive remuneration for the 30 June 2003 Directors' Report. (ASIC's guidelines do not require that options be expensed in the financial statements, only that they be disclosed in the directors' report). The guidelines provided draw on the issuance of the Australian Accounting Standards Board's Exposure Draft 108 "Share-Based Payment" (ED 108) and its equivalent the International Accounting Standards Board's Exposure Draft ED2 "Share-Based Payment" (ED 2). ED108/ED 2 provide a basis for valuing options and allocating those values over time.

ED108 /ED 2 propose that an expense be recognised in relation to options over the period from grant date to vesting date. For options that vest immediately, the value is recognised as an expense at grant date. Previous ASIC guidelines required the total value of options issued to be disclosed as part of remuneration in the year they were issued. The company made such a disclosure, as required in its 2002 directors' report and notes to the financial statements. The options issued in these years were "well out of the money" at their respective grant dates and year end date.

Options issued by Antisense Therapeutics Limited in 2002 have 3 vesting dates, for various proportions of the total issued options, during the life of the options as detailed below. Accordingly, although no options were issued during the year ended 30 June 2003, the options issued to directors in previous years, which had not vested at 1 July 2002, have been allocated a total value of \$1,720 for the current financial year and are included in the remuneration of directors above. This amount has been determined by allocating the fair value of options issued equally over the vesting periods. Currently, the amortised fair value is not recognised as an expense in the financial statements and no adjustments have been made to reflect estimated or actual forfeitures (ie. options that do not vest or are not exercised)

Details relating to options issued and the valuation basis adopted are as follows:

**NOTE 16. REMUNERATION OF DIRECTORS (CONTINUED)**

As stated in the company's 2002 annual report:

*9,500,000 options were granted to directors during the 2002 financial year. "Each option entitles the holder to purchase 1 ordinary share in Antisense Therapeutics Limited at an exercise price of 20 cents". There were 2,000,000 options granted on 15 November 2001 and 7,500,000 options granted on 3 December 2001. These options granted to directors are restricted securities and are escrowed for a period of 2 years from the date of official quotation of shares offered under the first prospectus issued by the company or such other period as the Australian Stock Exchange may require. Subject to the escrow arrangements, the option holder may not exercise more than the following proportions of options on the following dates:*

- Prior to 31 July 2002 0%
- Between 1 August 2002 and 31 July 2003 20%
- Between 1 August 2003 and 31 July 2004 60%
- Between 1 August 2004 and 31 July 2005 100%

*These options had no market value at date of grant and are "out of the money" as at the year end (market price per share \$0.12), whereas as stated above, the options have an exercise price of 20 cents. The directors have endeavoured to estimate the fair values of the options by using the Black-Scholes options pricing formula which values each option based on the expiration date and exercise price. Based on this accepted formula each option has a negligible value of 0.00459 of a cent. The directors have adopted this valuation for the purpose of these accounts "*

These options continue to be "well out of the money" as at the 2003 year end (market share price \$0.11).

Values of Options Issued to Directors – Assumptions

The following assumptions were used to derive a value for the options issued using the Black-Scholes options pricing formula at the 2002 financial year end date.

	<b>Options Granted</b>	
	<u>15 November 2001</u>	<u>3 December 2001</u>
Dividend yield	-	-
Expected volatility	12.34%	12.34%
Historical volatility	12.34%	12.34%
Risk-free interest rate	5.622%	5.622%
Expected life of option	*	*

\* Assumed to be total years from grant date to expiration date.

	2003 \$	2002 \$
<b>NOTE 17. REMUNERATION OF EXECUTIVES</b>		
Income paid or payable, or otherwise made available in respect of the financial year to all executive officers, directly or indirectly by the company:	<u>508,698</u>	<u>183,363</u>

The number of executive officers whose income (including superannuation contributions) falls within the following bands is:

	2003 No. (a)	2002 No.
\$10,000 - \$19,999	-	1
\$20,000 - \$29,999	1	-
\$60,000 - \$69,999	1	-
\$80,000 - \$89,999	-	2
\$90,000 - \$99,999	1	-
\$160,000 - \$169,999	2	-

- (a) Based on the method described in Note 16(a), total remuneration for the current financial year includes a value of \$399 for options granted to executives in the 2002 financial year, which had not vested at 1 July 2002. For further details see Note 16(a).

Details relating to options issued and the valuation basis adopted are as follows:

2,200,000 options were granted to officers during the 2002 financial year. Each option entitles the holder to purchase 1 ordinary share in Antisense Therapeutics Limited at an exercise price of 20 cents. These options were granted on 3 December 2001 on the same terms as those described in Note 16 (a) above, except that these options are not subject to any escrow arrangements.

The valuation of 0.00459 of a cent per option has been determined on the same basis as described in Note 16(a) above.

	2003 \$	2002 \$
<b>NOTE 18. REMUNERATION OF AUDITORS</b>		
Remuneration received, or due and receivable by the auditor for:		
Amounts received or due and receivable by Ernst & Young Australia for		
-an audit or review of the financial report of the entity	19,900	10,000
- other services in relation to the entity		
- tax compliance	15,152	-
- assurance related	1,500	-
Amounts received or due and receivable by auditors other than Ernst & Young for:		
- an audit or review of the financial report of the entity	-	3,500
- other services in relation to the entity		
- tax compliance	-	37,300
Total	<u>36,552</u>	<u>50,800</u>

	2003	2002
	\$	\$

**NOTE 19. COMMITMENTS**

**(a) Expenditure commitments relating to research and development are payable as follows:**

Not later than one year (i)	<u>1,247,678</u>	<u>2,422,252</u>
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(i) This amount includes commitments relating to research and development work being carried out by another entity on behalf of the company under a 3 year research agreement, however, the agreement allows for the research to be terminated with six months notice. Accordingly, the commitment reflects estimated costs that the company would be committed to in the event notice were to be given at year end.

**(b) Lease Expenditure commitments:**

Not later than one year	<u>45,087</u>	<u>28,591</u>
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**NOTE 20. EMPLOYEE BENEFITS**

**(a) Employee benefits**

Provisions (current) (Note 8)	<u>38,101</u>	<u>15,415</u>
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**(b) Employee Option Ownership Scheme**

Antisense Therapeutics Limited offers options over ordinary shares to employees at the discretion of the Board of Directors. There are currently five employees eligible to participate in this scheme. Options issued to employees are not listed options and as such do not have a readily available market value.

Details of the employee options ownership scheme are as follows:

	2003		2002	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	5,350,000	0.20	-	-
- granted			5,350,000	0.20
- exercised	-	-	-	-
Balance at end of year	<u>5,350,000</u>	<u>0.20</u>	<u>5,350,000</u>	<u>0.20</u>
Exercisable at end of year	<u>1,070,000</u>	<u>0.20</u>		-

The following summarises information about options held by employees as at 1 July 2002 and 30 June 2003 \*:

Number of Options	Grant Date	Vesting Dates	Expiry Date	Average Exercise Price
5,350,000	3 December 2001	1 August 2002 – 20% 1 August 2003 – 40% 1 August 2004 – 40%	31 July 2005	\$0.20

\* No options were granted during the year, and no options held by employees as at 1 July 2002 were exercised or expired during the year.

**NOTE 21. SUBSEQUENT EVENTS**

On 20 August 2003, the company announced a placement of shares to Australian institutions and professional investors, raising \$5 million by the issue of 38.5 million shares at \$0.13 per share. As part of the placement, Polychip Pharmaceuticals Pty Limited (a wholly owned subsidiary of Circadian Technologies Limited) has agreed to subscribe for approximately \$1 million at \$0.13 per share. This is subject to shareholder approval which will be sought at the company's Annual General Meeting.

**NOTE 22. SEGMENT INFORMATION**

The company operates in one industry and one geographical segment, those being the pharmaceutical and healthcare industry and Australia respectively.

## Directors' Declaration

In accordance with a resolution of the directors of Antisense Therapeutic Limited, we state that:

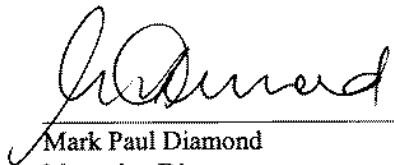
(1) In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Robert W Moses  
Chairman



Mark Paul Diamond  
Managing Director

Melbourne  
22 August 2003

## **OTHER INFORMATION**

	<b>2003</b>	<b>2002</b>
<b>NTA backing</b>		
Net tangible asset backing per ordinary security	\$0.03	\$0.04

### **Ratios**

Net loss from ordinary activities after tax attributable to members as a percentage of equity at the end of the year	(52.6%)	(46.9%)
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### **Earnings per share**

Basic earnings per share (cents per share)	(2.46)	(3.81)
Diluted earnings per share (cents per share)	(2.46)	(3.81)

### **Status of audit of accounts**

This Appendix 4E is based on accounts which have been audited. The audit report is included with the financial report which forms part of this Appendix 4E.

### **Annual General Meeting**

The Annual General Meeting will be held as follows:

Place: Rialto Towers  
Level 23  
525 Collins Street  
Melbourne, Victoria

Date: 31 October 2003

Time: 11.30am

Approximate date the  
annual report will be  
available: 26 September 2003