



Pharmaxis Ltd

ABN 75 082 811 630

ASX Half year report – 31 December 2003

Lodged with the ASX under Listing Rule 4.2A

This report is to be read in conjunction with the prospectus dated 26th September 2003, the financial statements for the year ended 30 June 2003 and any public announcements made by during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Pharmaxis Ltd

ABN 75 082 811 630

Reporting period: Half year ended 31st December 2003**(Previous corresponding period: Half year ended 31st December 2002)****Results for announcement to the market**

				<u>AS'000</u>
Revenue from ordinary activities	Up	183%	to	975
Profit(Loss) from ordinary activities after tax	Up	186%	to	(2,063)
Net profit(loss) for the half year attributable to members	Up	186%	to	(2,063)

Dividends

It is not proposed to pay a dividend

Other Appendix 4D information

	<u>31 December</u> <u>2003</u>	<u>31 December</u> <u>2002</u>
Net tangible assets per ordinary share	\$ 0.27	\$ 0.16

Pharmaxis Ltd

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the prospectus dated 26th September 2003, the financial statements for the year ended 30 June 2003 and any public announcements made by during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Pharmaxis Ltd

Directors' Report

Your directors present their report on the company for the half-year ended 31 December 2003.

Directors

The following persons were directors of the company during the whole of the half-year and up to the date of this report:

Denis Hanley
Brett Charlton
Carrie Hillyard
Charles Kiefel
Alan Robertson
Brigitte Smith

Malcolm McComas was appointed a director on 4 July 2003 and continues in office at the date of this report.

William Cowden (alternate for Brett Charlton), Geoffrey Brooke (alternate for Brigitte Smith) and Mark Morrisson (alternate for Carrie Hillyard) were alternate directors until their resignation on 22 September 2003.

Review of operations

Overview

Major milestones achieved during the first half of fiscal 2004 include:

- The company successfully listed on the Australian Stock Exchange on 10 November 2003, raising \$25 million.
- The company commenced manufacture of Aridol and Bronchitol for use in clinical trials, at its TGA registered manufacturing facility at Frenchs Forest.
- The Phase 3 clinical trial of the Aridol lung function test and the Phase 2 clinical trial of Bronchitol for bronchiectasis both commenced recruitment phase.
- The Phase 2 clinical trial of Bronchitol for cystic fibrosis received regulatory approvals.
- Protocol development continues for the follow on Phase 2 clinical trials of Bronchitol for bronchiectasis and cystic fibrosis.
- Key staff appointments included Mr Gary Phillips as Commercial Director, Mr Ron Sinani as Senior Regulatory Affairs Associate. The clinical trials team and manufacturing group have each expanded due to the increased clinical trial activity. Total employees at the date of this report are 24.
- Two new provisional patents in the autoimmune area have been filed since the beginning of the fiscal year.

Financial Highlights

	31 December 2003	31 December 2002
	\$	\$
Revenue		
Grant income	586,756	221,654
Interest	354,033	112,780
Rental income	34,430	10,128
	975,219	344,562
Expenses		
Research & development	(2,186,062)	(753,706)
Administration	(851,743)	(312,069)
Net loss	\$(2,062,586)	\$(721,213)
Cash and bank accepted commercial bills	\$27,726,394	\$7,924,165
Net assets	\$30,721,758	\$10,358,318

Grant income:

Grant income in the first half of fiscal 2004 derives from the \$3.0 million R&D Start Grant awarded to the company in June 2003 for the development of new treatments for cystic fibrosis. This grant is larger than grants received in prior periods.

Interest:

The company started the 2004 fiscal year with \$7.4 million of cash and bank accepted commercial bills on which interest

Directors' Report

was earned. The net \$22.9 million raised in the 10 November 2003 initial public offering added significantly to these invested funds. By contrast, in the first half of fiscal 2003 the company had less than a million dollars of invested cash until a \$9.6 million private venture capital equity round in late August 2002. The increase in interest income while mainly attributable to the greater level of funds invested during the first half of fiscal 2004, was to a lesser extent the result of a board decision to invest in higher yielding bank accepted commercial bills and also rising interest rates.

Research & development expenses:

Research & development expenses increased by approximately \$1.4 million in the first half of fiscal 2004 compared to the first half of fiscal 2003. There are four components to the research & development expenses:

1. The research unit based at the John Curtin School of Medical Research within the Australian National University which is focused on autoimmune diseases. The level of expenditure in the first half of fiscal 2004 for this research unit has not changed materially from the first half of fiscal 2003.
2. The preclinical development group which relocated from our Canberra office to Frenchs Forest in January 2004. This group is managing the outsourced safety/toxicology studies of the Aridol and Bronchitol products and the preclinical development of lead compounds in the autoimmune area (PXS25 and PXS2000). This area of expenditure accounted for approximately one third of the increase in overall research & development expenditure reflecting the initiation of work in these areas.
3. The clinical trials group also relocated from Canberra to Frenchs Forest in January 2004. This internal clinical trial group design and monitor the clinical trials run by the company. The majority of the expenditures of this group are directed at hospitals and other services related to the conduct and analysis of clinical trials. During the first half of fiscal 2004 expenditure commenced on three clinical trials, with design and planning on a further three trials in progress. Approximately one third of the increase in overall research & development expenditure is attributable to the increased expenditure on clinical trials.
4. Manufacturing. The TGA registered manufacturing facility at Frenchs Forest is focused on producing material for clinical trials and developing enhanced manufacturing processes. It is therefore classified as a research & development expenditure. This area of expenditure also accounted for approximately one third of the increase in overall research & development expenditure, reflecting the increased activity in clinical trials.

Administration expenses:

Administration expenses include accounting, administration, office and public company costs. Prior to November 2002 the small level of these services required by the company were provided by outside providers, and the company did not have its own premises. Since November 2002 when the company first leased its facilities at Frenchs Forest it has employed the staff required to establish these administrative capabilities. The growth of the company and its listing on the Australian Stock Exchange has also increased the level of administration support needed.

Balance Sheet:

The \$25 million initial public offering of the company and its subsequent listing on the Australian Stock Exchange on 10 November 2003 increased cash funds of the company by \$22.9 million after deducting associated expenses. Together with pre-existing funds the company ended the half year with \$27.7 million in cash and bank accepted commercial bills.

The fit-out of the Frenchs Forest facility and installation of the manufacturing equipment was substantially completed in the 2003 fiscal year. Expenditures on plant and equipment have therefore significantly reduced in the current reporting period.

Corporate Governance:

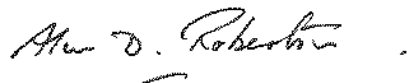
As a company recently listed on the Australian Stock Exchange, the Board is mindful of the requirement to implement appropriate corporate governance policies and procedures. In the first half of fiscal 2004 the Board has therefore:

- Drafted and adopted a Corporate Governance Framework which addresses the Best Practice Recommendations issued by the Australian Stock Exchange.
- Adopted a plan which will see the Corporate Governance Framework fully implemented by 30 June 2004, including appropriate disclosure of corporate governance matters on the Pharmaxis web site.
- Formed an Audit Committee
- Reformed the existing Remuneration Committee into a Remuneration and Nomination Committee
- Adopted (before listing) a Share Trading Policy
- Adopted (before listing) a Continuous Disclosure and Shareholder Communication Policy

Directors' Report (continued)

Shareholders are advised that additional information concerning the company's progress in the quarter ended 31st December 2003 is contained in the December 2003 Quarterly Report to Shareholders, available on the Pharmaxis website.

This report is made in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read "Alan D. Robertson".

Alan D Robertson
Director

5th February 2004

Pharmaxis Ltd

Statement of financial performance

For the half-year ended 31 December 2003

		Half Year Ended 31 December 2003 \$	Half Year Ended 31 December 2002 \$
Revenues from ordinary activities	Notes 3	975,219	344,562
Expenses from ordinary activities			
Research & development expenses	4	(2,186,062)	(753,706)
Administration expenses	4	(851,743)	(312,069)
Profit / (loss) from ordinary activities before income tax expense	4	(2,062,586)	(721,213)
Income tax expense / (credit)		-	-
Net profit / (loss)		\$ (2,062,586)	\$ (721,213)
Earnings per share		Cents	Cents
Basic and diluted earnings(loss) per share	7	(2.8)	(1.5)

The above statement of financial performance should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Statement of financial position

For the half-year ended 31 December 2003

	31 December 2003 \$	30 June 2003 \$
Notes		
Current Assets		
Cash and bank balances	324,804	1,391,707
Other financial assets – bank accepted commercial bills	27,401,590	5,992,216
Receivables	-	62,582
Other	540,036	84,235
Total Current Assets	28,266,430	7,530,740
Non-Current Assets		
Plant and equipment	1,479,577	1,515,016
Intangible assets	1,191,613	1,205,000
Other – security deposits	250,575	243,800
Total Non-Current Assets	2,921,765	2,963,816
Total Assets	31,188,195	10,494,556
Current Liabilities		
Accounts payable	411,247	284,433
Other liabilities – deferred research grants	50,113	318,563
Total Current Liabilities	461,360	602,996
Non-Current Liabilities		
Provisions	5,077	1,499
Total Non-Current Liabilities	5,077	1,499
Total Liabilities	466,437	604,495
Net Assets	\$ 30,721,758	\$ 9,890,061
Shareholders' Equity		
Contributed equity	35,698,812	12,804,529
Retained earnings	(4,977,054)	(2,914,468)
Total Shareholders' Equity	\$ 30,721,758	\$ 9,890,061

The above statement of financial position should be read in conjunction with the accompanying notes.

Pharmaxis Ltd

Statement of cashflows

For the half-year ended 30 June 2003

	Half Year Ended 31 December 2003 \$	Half Year Ended 31 December 2002 \$
Cash Flows from Operating Activities		
Research grant receipts from governments	380,888	230,978
Payments to suppliers and employees	(3,068,523)	(1,241,134)
Interest received	288,395	112,780
Rental income	34,556	15,192
Tax paid	-	-
Net cash flows from operating activities	(2,364,684)	(882,184)
Cash Flows from Investing Activities		
Payment for properties, plant and equipment	(156,339)	(1,116,076)
Payment for patents	(30,789)	(3,434)
Proceeds from disposal of property, plant and equipment	-	-
Net cash flows from investing activities	(187,128)	(1,119,510)
Cash Flows from Financing Activities		
Issuance of shares	25,000,000	9,350,000
Transaction costs on share issue	(2,105,717)	(174,899)
Cancellation of shares	-	(101)
Net cash flows from financing activities	22,894,283	9,175,000
Net Increase (Decrease) in Cash Held	20,342,471	7,173,306
Cash at the beginning of the financial year	7,383,923	750,859
Cash at the End of the Financial Year	\$ 27,726,394	\$ 7,924,165

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

Notes to and forming part of the financial statements (continued)

For the half-year ended 31 December 2003

Note 1 Basis of preparation of half-year financial report

This general purpose financial report for the interim half-year reporting period ended 31 December 2003 has been prepared in accordance with Accounting Standard AASB 1029: *Interim Financial Reporting*, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the prospectus dated 26th September 2003, the financial report for the year ended 30 June 2003 and any public announcements made by Pharmaxis Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Note 2 Summary of significant accounting policies

This general purpose financial report is prepared in accordance with the historical cost convention. Comparative information is reclassified where appropriate to enhance comparability.

(a) Operating Revenue

Revenues are recognized at fair value of the consideration received net of any applicable taxes.

Interest revenue is recognized as it accrues, taking into account the effective yield on the financial instruments.

Government research and development grant income is recognized as and when the relevant research expenditure is incurred. When the Company receives income in advance of incurring the relevant expenditure, it is treated as deferred income as the Company does not control the income until the relevant expenditure has been incurred.

(b) Receivables

Trade debtors are carried at amounts due. The collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(c) Research and Development Costs

Internally generated research and development costs are expensed as incurred.

(d) Inventories

Research and development stores and materials manufactured for clinical trials are expensed as incurred. Raw materials for clinical trials are stated at the lower of cost or net realizable value.

(e) Cash

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

(f) Depreciation of Plant and Equipment

Items of plant and equipment, including leasehold improvements are depreciated/amortized over their estimated useful life to the Company, ranging from 3 years to 10 years using the straight line method. Assets are depreciated or amortized from the date of acquisition and up to the date of disposal.

(g) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

Notes to and forming part of the financial statements (continued)

For the half-year ended 31 December 2003

Note 2 Summary of significant accounting policies (continued)

(h) Employee Entitlements

(i) Wages and Salaries, Annual Leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employee services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Superannuation

The Company contributes to standard defined contribution superannuation funds on behalf of all employees and directors at 9% of employee gross salary.

(iii) Employee Share Options

The value of options granted under share option plans are not charged as an employee entitlement expense.

(iv) Long Service Leave

A liability for long service leave is recognised, and is 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 interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(i) Intangible Assets

Costs of purchase of patent licenses and application costs for new patents are capitalised and amortised over the period in which the related benefits are expected to be realised.

(j) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(k) Foreign Currency Translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

(l) Lease Payments

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expense in the periods in which they are incurred.

(m) Maintenance and Repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

(n) Acquisitions of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

(o) Non Current Assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount.

Pharmaxis Ltd

Notes to and forming part of the financial statements (continued)

For the half-year ended 31 December 2003

Note 2 Summary of significant accounting policies (continued)

In assessing recoverable amounts of non-current assets the relevant cash flows have been discounted to their present value.

(p) Website Costs

Costs in relation to building, enhancing and operating web sites controlled by the Company are charged to expenses in the period in which they are incurred.

(q) Contributed Equity

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

Note 3 Operating Revenue

	31 December 2003 \$	31 December 2002 \$
Interest received	354,033	112,780
Grant revenue	586,756	221,654
Rental income	34,430	10,128
	975,219	344,562

Note 4 Operating Profit

	31 December 2003 \$	31 December 2002 \$
Operating profit before income tax for the year includes the following items:		
Expenditure		
Depreciation of plant and equipment	191,778	48,180
Amortization of intangible assets	44,176	42,977
Net amount provided for employee entitlements	108,570	25,799
Rental expense of operating leases	167,666	67,032

Note 5 Shareholders' Equity

	31 December 2003 \$	30 June 2003 2002 \$
(a) Contributed equity		
108,016,000 ordinary shares (2002: 11,200,000)	35,698,812	1,400,000
Nil "A" class converting preference shares (2002: 16,000,000)	-	2,000,000
Nil "B" class converting preference shares (2002: 29,920,000)	-	9,404,529
	35,698,812	12,804,529

Notes to and forming part of the financial statements (continued)

For the half-year ended 31 December 2003

Note 5 Shareholders' Equity (continued)

The company completed its initial public offering and listed on the Australian Stock exchange on 10 November 2003. As part of the transition to a listed public company:

- the company changed its status from a proprietary to a public company
- a new constitution was adopted and is available on the company's website
- all shares were split on the basis of eight new ordinary shares for one old ordinary share
- all "A" and "B" series converting preference shares were converted to 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.

	2003 Number of shares	2003 \$
(b) Movements in ordinary shares		
Opening balance at 1 July 2003	1,400,000	1,400,000
Split of existing shares	9,800,000	-
Shares issued – initial public offering at \$0.50 each	50,000,000	25,000,000
Conversion of "A" and "B" converting preference shares	46,816,000	11,404,529
Transaction costs on share issues	-	(2,105,717)
	108,016,000	35,698,812

	2003 Number of shares	2003 \$
(c) Movements in A class converting preference shares		
Opening balance at 1 July 2003	2,000,000	2,000,000
Split of existing shares	14,000,000	-
Conversion to ordinary shares	(16,000,000)	(2,000,000)
	-	-

	2003 Number of shares	2003 \$
(d) Movements in B class converting preference shares		
Opening balance at 1 July 2003	3,852,000	9,404,529
Split of existing shares	26,964,000	-
Conversion of "A" and "B" converting preference shares	(30,816,000)	(9,404,529)
	-	-

	2003 \$
(e) Retained profits	
Retained profits at the beginning of the financial year	(2,914,468)
Net profit / (loss)	(2,062,586)
Retained profits at the end of the financial year	(4,977,054)

Notes to and forming part of the financial statements (continued)

For the half-year ended 31 December 2003

Note 6 Contingent Liabilities

- (a) The Company has received three separate Australian Government research grants under the R&D START Program, two of which have completed. The Government may require the Company to repay all or some of the amount of a particular grant together with interest in either of the following circumstances:
- the Company fails to use its best endeavours to commercialize the relevant grant project within a reasonable time of completion of the project; or
 - upon termination of a grant due to breach of agreement or insolvency.

The Company continues the development and commercialization of all three projects funded by the START Program. The total amount received under the START Program at 31 December 2003 was \$2,703,204, of which \$50,113 has been booked as deferred research grants.

- (b) The Company has a bank guarantee of \$169,462 in relation to a rental bond for which no provision has been made in the accounts. This bank guarantee is secured by a security deposit held at the bank.

Note 7 Earnings per share

	2003	2002
	Cents	Cents
Basic and diluted earnings(loss) per share	(2.8)	(1.5)

Diluted earnings per share is equivalent to basic earnings per share as the potential ordinary shares are anti-dilutive and have therefore not been included in the diluted earnings per share calculation.

Note 8 Subsequent Events

The directors are not aware of any subsequent events.

Directors' declaration

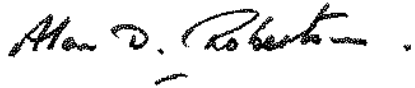
The directors declare that the financial statements and notes set out on pages 3 to 14:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's financial position as at 31 December 2003 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 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.

This declaration is made in accordance with a resolution of the directors.



Alan D Robertson
Director

Sydney
5th February 2004

Independent review report to the members of Pharmaxis Ltd

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Pharmaxis Ltd

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Pharmaxis Ltd as at 31 December 2003 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

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 the Pharmaxis Ltd (the company), for the half-year ended 31 December 2003.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

When this review report is included in a document containing information in addition to the financial report, our procedures include reading the other information to determine whether it contains any material inconsistencies with the financial report.

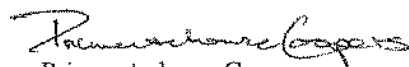
These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

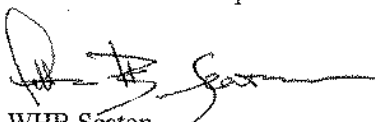
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.


PricewaterhouseCoopers


WHB Seaton
Partner

Sydney
5 February 2004