ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 June 2008

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The Directors present their report together with the financial report of Hexima Limited ('the Company') for the financial year ended 30 June 2008 and the auditor's report thereon.

Directors

The Directors of the Company at any time during or since the end of the financial year are:

G F Dan O'Brien

BSc, BVMS (Murdoch University), MBA (Harvard University)

Non-Executive Chairman (formerly Managing Director and Chief Executive Officer)
Dan O'Brien was appointed Chairman of the Company on 1 July 2008. He was Managing Director and Chief Executive Officer of Hexima from October 2005 until 30 June 2008. Mr O'Brien has extensive agribusiness experience including farming investments and executive and non-executive roles with King Island Dairy Limited, Tasman Agriculture Limited, Colly Farms Cotton Limited, SPC Ardmona Limited and Coates Hire Limited (2003 – 2007). His previous roles include Chief Executive Officer positions with BIL Australia, Mattel Asia Pacific and The King Island Company Limited.

Mr O'Brien has been a director of Select Harvests Limited since 2004 and Thomas and Coffey Limited since 2005.

Mr O'Brien is aged 52. He has been a Director of the Company since 17 May 2002 and is a member of the Remuneration and Audit and Risk Management Committees.

Professor Adrienne E Clarke AC

FAA, FTSE, BSc (Hons), PhD (The University of Melbourne)

Deputy Chairman, Chief Science Officer
Professor Adrienne Clarke is a founding member of Hexima, and became the Chief Science Officer in April 2006. Professor Clarke is Laureate Professor at The University of Melbourne. She was appointed to a Personal Chair at the School of Botany (awarded in 1982) and is past Director of the Plant Cell Biology Research Centre, The University of Melbourne (1982–1999), former Chairman of CSIRO (1991–96), former Lieutenant Governor of Victoria (1997–2000) and former Ambassador for Biotechnology for Victoria (2001–2003). She was made an Officer of the Order of Australia in 1991 and a Companion of the Order of Australia in 2004.

Professor Clarke was President of the International Society for Plant Molecular Biology (1997–98). She is a Foreign Member, American Academy of Arts and Science; Foreign Associate, National Academy of Sciences, USA; Companion, The Institute of Engineers, Australia; Fellow, Australian Academy of Science; and Fellow, Australian Academy of Technological Sciences and Engineering.

Professor Clarke was formerly a Director of WMC Limited, Woolworths Limited (1994–2007) and Fisher & Paykel Healthcare Limited (2002–2008).

Professor Clarke is aged 70. She has been a Director of the Company since 15 November 2001.

Joshua T Hofheimer

AB (Dartmouth College), JD (Harvard Law School)

Chief Executive Officer/Managing Director
Joshua Hofheimer became CEO and Managing Director of Hexima in July 2008. Mr Hofheimer has extensive experience in the agricultural science and biotechnology sectors, in structuring and negotiating complex commercial transactions and joint ventures with both start-ups and global industry leaders.

Mr Hofheimer's previous role was Partner at the LA office of Sidley Austin LLP, an international law firm of more than 1700 attorneys worldwide. For the past 7 years, he specialised in the plant biotechnology sector, including developing and implementing business strategies for commercialisation of multiple intellectual property platforms. He also served as a leader in the firm's Intellectual Property and Commercial Transactions Practice.

Mr Hofheimer was formerly a member of several boards, including the Jonsson Cancer Center Foundation at UCLA and the Zimmer Children's Museum, and is active in charitable foundations such as the EIF Revlon Run/Walk for Women's Cancers.

Mr Hofheimer is aged 39.

Steven M Skala

BA, LL.B (Hons) (University of Qld), BCL (Oxford University)

Non-Executive Director (formerly Non-Executive Chairman)
Steven Skala is Vice Chairman, Australia and New Zealand of Deutsche Bank AG. He retired from legal practice after almost 25 years experience in commercial law. Between 1985 and 2004 he was a partner of law firm, Arnold Bloch Leibler, and was Head of its Corporate and Commercial Practice for several years. Mr Skala is a Director of the Australian Broadcasting Corporation, Deutsche Australia Limited, Max Capital Group Limited, Wilson HTM Investment Group Limited, The Australian Ballet and The Centre for Independent Studies. He is also Vice President of The Walter and Eliza Hall Institute for Medical Research and was previously Chairman of Film Australia Limited.

Mr Skala is aged 52. He has been a Director of the Company since 17 May 2002 and was Chairman of the Company until 1 July 2008. He is also a member of the Remuneration and Audit and Risk Management Committees.

Hugh M Morgan AC

LLB, BComm (The University of Melbourne)

Non-Executive Director
Hugh Morgan is Principal of First Charnock Pty Ltd, a Director of the Board of the Reserve Bank of Australia until July 2007 and a member of the Lafarge International Advisory Board. He is also a Trustee Emeritus of The Asia Society New York, President of the National Gallery of Victoria Foundation and Chairman of the Order of Australia Association Foundation.

From 2003–2005, Mr Morgan was President of the Business Council of Australia. He is also immediate Past President of the Australia Japan Business Co-operation Committee and immediate Past Co-Chair of the Commonwealth Business Council, and continuing Director.

Mr Morgan was Chief Executive Officer of WMC Limited from 1986 to 2003. He was a Director of Alcoa of Australia from 1977 to 1998 and a Director of Alcoa Inc from 1998 to 2001.

Mr Morgan is aged 67. He has been a Director of the Company since 10 May 2007. He is Chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee.

Professor Jonathan West

BA (University of Sydney), PhD (Harvard University)

Non-Executive Director

Professor Jonathan West is the Director of the Australian Innovation Research Centre. Prior to assuming his current appointment, he taught for 18 years at the Harvard University Graduate School of Business Administration, where he was Associate Professor, founding Director of the Harvard University Life Sciences Initiative, and from 1998–1999 the Novartis Faculty Research Fellow. He has been Visiting Professor at Hitotsubashi University and the Nomura School of Advanced Management in Tokyo, Japan and Visiting Professor at the University de Paris IX-Dauphine, Sorbonne.

Professor West is also Chairman of the Asia Advisory Council of Bunge Ltd, one of the world's largest agribusiness processing and trading companies, and has served as an advisor to other major corporations and several Governments around the world, including in the life sciences field, DuPont, Roche, Novartis, Syngenta and the J.R. Simplot Company, along with the Governments of Singapore, Japan, Hong Kong and France. He was a member of the Scientific Advisory Board of the Novartis Agricultural Discovery Institute in La Jolla, California. In Australia, he has served on the Prime Minister's Science, Engineering, Innovation Council's Working Group on Science and Technology in China and India and in 2006 was 'Eminent Thinker in Residence' with the Premier of NSW.

Professor West is aged 51. He has been a Director of the Company since 7 November 2005. He is Chairman of the Remuneration Committee and a member of the Audit and Risk Management Committee.

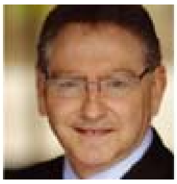
Company Secretary

Ms Justine Heath CA was appointed to the position of Company Secretary in December 2007. Ms Heath has experience across a range of industries and previously held senior finance roles with the Faulding Group and Santos Limited.

Mr O'Brien

Prof Clarke

Mr Hofheimer



Mr Skala

Mr Morgan

Prof West

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

	Board Meetings		Audit and Risk Management Committee		Remuneration Committee	
	Held (1)	Attended	Held (1)	Attended	Held (1)	Attended
Steven M Skala	13	12	3	3	2	2
Adrienne E Clarke (3)	13	13	-	-	2	2
GF Dan O'Brien (2)	13	12	-	-	-	-
Hugh M Morgan	13	10	3	3	2	2
Jonathan West	13	9	3	2	2	2

(1) Number of meetings held during the time the director held office during the year.

(2) Mr O'Brien is a member of the Audit and Remuneration Committees from 1 July 2008.

(3) Professor Clarke was formerly a member of the Remuneration Committee.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with ASX Corporate Governance Council recommendations, unless otherwise stated.

The Board of Directors

The Board is responsible for the direction and supervision of Hexima's business on behalf of the Shareholders, by whom they are elected and to whom they are accountable.

The Board's responsibilities include:

- protecting and enhancing the value of Hexima's assets;
- setting strategies and directions, then monitoring and reviewing progress against these strategic objectives;
- reviewing and ratifying internal controls, codes of conduct and legal compliance;
- ensuring the significant risks facing Hexima have been identified and adequate control, monitoring and reporting mechanisms are in place;
- approving transactions relating to acquisitions, divestments and capital expenditure above delegated authority limits; and
- approving and monitoring financial and other reporting.

The Board has adopted a Board Charter, which sets out values and business behaviours necessary to maintain confidence in Hexima's integrity. It includes a trading policy governing trading in securities by Directors, officers and employees and details the respective roles and responsibilities of the Board and management.

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Directors and Executives will participate in a formal induction program. They will have access to continuing education to update and enhance their skills and knowledge. A review of the performance of the Board will be undertaken annually by the Chairman, in consultation with the Board.

Composition of the Board

The Constitution of the Company provides that the number of Directors shall not be less than three. There are currently six Directors in office at the date of this report and their names and qualifications are set out on pages 16 to 17 of this Directors' Report.

The ASX best practice recommendations require a majority of the Board to be independent Directors and the chairperson to be an independent director. Currently, the Board has one director who satisfies the ASX guidelines for independence (being Jonathan West). Mr Dan O'Brien, Mr Steven Skala and Mr Hugh Morgan are Non-Executive Directors but do not qualify as independent because of their shareholdings in Hexima, and in Mr O'Brien's case, due to his previous executive role with the Company. The Board considers their significant commitment as shareholders (which aligns their interests with those of other shareholders) and broad experience as directors of other companies provide advantages to the Board which outweigh any disadvantage in them not satisfying the ASX guidelines for independence. The Board will review this position at least annually.

Board Committees

To assist in the execution of its responsibilities, the Board has established a number of board committees including a Nomination Committee, a Remuneration Committee and an Audit and Risk Management Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis.

The full Board has 12 meetings scheduled for the coming year. Extraordinary meetings will be convened at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman and the Chief Executive Officer/Managing Director. Submissions are circulated in advance. Executives are regularly involved in Board discussions.

Nomination Committee

The Board has in place a Nomination Committee to assist it in ensuring the Board has an effective composition, size and commitment.

The Nomination Committee develops criteria for Board membership, identifies specific individuals for nomination as Directors and establishes processes for the review of the performance of individual Directors and the Board as a whole. In addition, it is the policy of the Nomination Committee to meet as early as practicable prior to the expiration of the term of office of a Director to consider suitably skilled and experienced individuals for nomination as Directors.

Further details of the Nomination Committee's charter form part of the Board Charter, which is available on the Company's website.

Each of the Directors is currently on the Nomination Committee. The Board reviewed the structure of the Board and senior executive teams throughout the current financial year within existing scheduled Board meetings. There are two formal meetings of the Nomination Committee scheduled for the coming financial year.

Remuneration Committee

The Board will review and reward the performance of the senior management team. In doing so, they will consider recommendations from the Remuneration Committee.

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to Key Executives and Directors. The Remuneration Committee Charter forms part of the Board Charter, which is available on the Company's website.

The Remuneration Committee will consist of at least three Directors, a majority of whom are Non-Executive Directors and at least one of whom is an independent director.
This differs from the ASX best practice recommendations

which require a majority of independent Directors and an independent Chairman. Given the current composition of the Board, it is not possible for Hexima to satisfy the ASX requirements as to independence. The current members are Professor Jonathan West (Chairman), Mr Dan O'Brien, Mr Steven Skala and Mr Hugh Morgan.

The Remuneration Committee meets at least twice a year in order to review and make recommendations to the Board. The Remuneration Committee met twice during the year and the committee members' attendance record is disclosed in the table of Directors' meetings on page 17. In addition, remunerations issues were addressed at a number of meetings of the full Board during the year.

The Remuneration Committee may invite any executive management team members or other individuals to attend meetings of the Remuneration Committee as it considers appropriate. The Remuneration Report is set out on pages 22 to 24 and forms part of the Directors' Report for the financial year ended 30 June 2008.

Audit and Risk Management Committee

The Board has in place an Audit and Risk Management Committee to assist it in verifying and safeguarding the integrity of Hexima's financial reporting. The Audit and Risk Management Committee Charter forms part of the Board Charter, which is available on the Company's website.

The Audit and Risk Management Committee reviews the financial information which is provided to Shareholders and others, the systems of internal controls which management and the Board have established and the audit process.

The Audit and Risk Management Committee also reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

Audit and Risk Management Committee meetings are to be held periodically throughout the year. It is the policy of the Board that the members of the Audit and Risk Management Committee should be Non-Executive Directors, at least one of whom should also be independent. This differs from the ASX best practice recommendations which require a majority of independent Directors and an independent Chairman. Given the current composition of the Board, it is not possible for Hexima to satisfy the ASX requirements as to independence. The current Audit and Risk Management Committee comprises Mr Hugh Morgan as Chairman, Mr Steven Skala, Mr Dan O'Brien and Professor Jonathan West.

The Chief Executive Officer/Managing Director, Chief Financial Officer and external auditors will generally attend all Audit and Risk Management Committee meetings. The Audit and Risk Management Committee met twice during the year and the committee members' attendance record is disclosed in the table of Directors' meetings on page 17.

The Chief Executive Officer/Managing Director, the former Chief Executive Officer/Managing Director and the Chief Financial Officer have declared in writing that the records for the year have been properly maintained, the Company's financial reports for the year ended 30 June 2008 comply with accounting standards and present a true and fair view of the Company's financial condition and operating results. This statement is required annually.

Communication With Shareholders

Hexima's policy is to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The Board Charter includes a continuous disclosure protocol to ensure compliance with Corporations Act 2001 and the Listing Rules disclosure requirements.

In summary, the Company's continuous disclosure protocol operates as follows:

- the Chief Executive Officer/Managing Director and the Chief Financial Officer/Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Chief Financial Officer/Company Secretary is responsible for all communications with the ASX;
- the full Annual Financial Report is available on the Company's website and is sent to all shareholders who request it;
- the half-yearly report contains summarised financial information and a review of the operations of the Company during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to all shareholders who request it; and
- all media releases and information provided to analysts or the media during briefings are released to the ASX.

Hexima's communications strategy is set out in the Board Charter and is designed to promote effective communication with Shareholders and encourage effective participation at general meetings.

Risk Management

The Board is responsible for the assessment of risk.

Intellectual Property

Intellectual Property is Hexima's most important asset and protection of its IP portfolio is critical to the Company's ability to implement its business strategy. Hexima has consistently invested significant amounts in the development and maintenance of this IP portfolio.

Hexima's IP Committee, chaired by Professor Adrienne Clarke, meets regularly to identify and monitor the creation of IP and to monitor and review claims in the same technical field filed by other companies. The Committee works closely with Hexima's US and Australian patent attorneys.

The Committee also develops and maintains appropriate protocols for recording research results and maintaining the confidentiality of know-how and information associated with Hexima's trials and technology.

Regulatory Framework (including Environmental Regulation)

The use of ag-biotechnology is regulated in the majority of countries in which Hexima will seek to commercialise its technology. The regulatory framework, which varies from country to country, is generally based on an assessment of the risk associated with the technology.

In Australia, the use of ag-biotechnology is regulated by the Gene Technology Act. Hexima's gene technology research at The University of Melbourne and La Trobe University is overseen by the Office of the Gene Technology Regulator and all field trials conducted by Hexima have been specifically licensed by the office of the Gene Technology Regulator.

Financial Reporting

The Chief Executive Officer/Managing Director, the former Chief Executive Officer/Managing Director and the Chief Financial Officer have declared in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by Directors and revised forecasts for the year are prepared regularly.

Funds Management

The Company has considerable funds on deposit following its successful IPO in 2007. The Company's policy is to invest these funds in term deposits or bank bills.

Ethical Standards

All Directors, executives and employees are expected to act with the utmost integrity at all times to enhance the reputation and performance of the Company. Every employee has a supervisor to whom they may refer any issues arising from their employment.

Conflicts of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has procedures to assist Directors to disclose potential conflicts of interest.

Trading in Company Securities by Directors and Employees

The Company has a policy regarding the trading in Company securities by Directors and employees. The policy details the insider trading provisions of the Corporations Act and provides for Directors, executives and employees to be able to trade at any time except when there is a 'black-out', subject to their having obtained approval from the Company Secretary. Company-wide 'black-outs' will occur for a period commencing 6 weeks prior to the release of the half-year and annual results and ending 24 hours after such a release and for a period commencing 2 weeks prior to the Company's annual general meeting and ending 24 hours after the annual general meeting. Black-outs can occur at any other time for the Company or for certain individuals prior to any major announcement or when they are possession of price sensitive information.

All new employees and all existing employees (on an annual basis) are required to sign an acknowledgement that they are aware of the Company's Share Trading Policy.

Independent Advice

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of the advice received by the Director will be made available to all members of the Board.

Principal Activities of the Company

The principal activity of the Company during the financial year was the research, development and commercialisation of technology for the genetic modification of crops, primarily to enhance their resistance to insects and fungal pathogens.

Operating and Financial Review

$000	2008	2007
Revenue	1,156	543
Net loss before financing income/expense	(5,441)	(2,924)
Net financing (costs)/income	2,411	(8,443)
Income tax expense	-	-
Net loss after tax attributable to members	(3,030)	(11,367)
Dividends	NIL	NIL
Basic earnings per share (cents)	(4.5)	(38.6)

Hexima successfully completed an Initial Public Offering, raising $40 million prior to expenses, and listed on the ASX in August 2007. This has provided the Company liquidity and funding for the expansion of the Company's activities.

The Company had net cash outflows from operating activities of $6.072 million for the year ended 30 June 2008, reflecting the current research and development nature of the Company's activities.

Hexima recorded a loss after tax of $3.030 million for the year ended 30 June 2008, compared with a loss after tax of $11.367 million for the previous corresponding period. Excluding net finance income/loss and income tax expense, the loss from operating activities for the financial year was $5.441 million, compared with $2.924 million for the previous corresponding period.

This resulted from a general increase in expenditure, reflecting the expansion of the Company's activities in researching, developing and commercialising its technologies, as well as the expenses of establishing the administrative capacity for a listed Company, only partially offset by an increase in revenue from collaborations and governments grants.

Net finance income for the financial year ended 30 June 2008 was $2.411 million compared with a net loss of $8.443 million for the previous corresponding period. The finance income earned in the current financial year reflects the interest income on the balance of capital raised in the Initial Public Offering. Included in the previous corresponding period was finance expense of $8.484 million, which was largely attributable to a non-cash accounting entry required to be made in accordance with AIFRS to reflect the net fair value adjustment on a converting note derivative.

Outlook

On 7 August 2008, Hexima announced its first definitive development and commercialisation agreement with DuPont business, Pioneer Hi-Bred International, Inc. The agreement provides for the development and commercialisation of fungal disease resistance technology in corn, soybeans and other crops. It is a very significant validation of the Company's technology and is a strategically important step for the Company.

Pioneer and Hexima will combine intellectual property and anti-fungal protein assets to create a single, exclusive program for the development and commercialisation of transgenic fungal disease resistance technology. Hexima will lead the initial stage crop validation and Pioneer will lead the late stage development. As part of the agreement, Pioneer will commercialise the technology in its major crops, corn and soybeans, and Hexima will control the technology in all other crops.

The initial target for the collaboration is broad-spectrum fungal resistance in corn. Fungal pathogens cause extensive damage to corn fields globally, with estimated yield losses of more than $1 billion per annum in North and South America alone. Fungal losses are growing as farmers seek to optimise returns from higher corn prices by reducing crop rotation.

The agreement outlines the path to market for Hexima's anti-fungal technology and specifies milestone and royalty payments.

Hexima also continues to progress towards the commercialisation of its insect resistance technology. The field trials conducted over three growing seasons in 2004-2007 provided important validation of the technology and recent work provides an improved understanding of the activity of the Company's proprietary proteinase inhibitors. The Company is now optimising combinations of proteinase inhibitors of different specificities to create the next generation of proteinase inhibitor-based insect resistance technology.

Significant Changes in the State of Affairs

In the opinion of Directors the following significant changes in the state of affairs of the Company occurred during the financial year under review:

Initial Public Offering

To raise $40,000,000 prior to expenses, the Company issued a Prospectus ('the Prospectus') for the offer of 32,000,000 shares at $1.25 per share on 6 July 2007. The offer was fully subscribed and trading of the shares on the Australian Stock Exchange (ASX) commenced on 27 August 2007.

Conversion of Converting Notes

The Company had 2,827,897 Converting Notes on issue as at 30 June 2007, classified as a liability in the Company's balance sheet. As the Company listed on the Australian Stock Exchange on 27 August 2007 at a value of $1.25 per share, a Liquidity Event as defined in the Converting Note Commitment Agreement occurred. At this time the Converting Notes converted to 9,049,270 fully paid ordinary shares.

Issued Capital Post-IPO	Number of Shares	Amount Paid ($)
On issue at 1 July 2007	33,224,006	2,361,456
Issued on conversion of converting notes 27 August 2007	9,049,270	11,311,597
Issued for cash – IPO 27 August 2007	32,000,000	40,000,000
On issue at 27 August 2007	74,273,276	53,673,053
Less: transaction costs	-	(1,838,574)
Derecognition of deferred tax assets	-	(787,960)
Total at 27 August 2007	74,273,276	51,046,519
Issued post IPO (3 January 2008) on exercise of options	303,031	151,516
Total as at 30 June 2008	74,576,307	51,198,035

Changes in Key Management Personnel

As foreshadowed in the prospectus, the Company appointed a Chief Financial Officer, Ms Justine Heath, during the financial year ended 30 June 2008.

Events Subsequent to Reporting Date

On 1 July 2008, Mr Joshua Hofheimer was appointed Chief Executive Officer/Managing Director of the Company. Mr Dan O'Brien, one of the Company's foundation shareholders and Chief Executive Officer since 2002, was appointed Non-Executive Chairman. Former Chairman and foundation shareholder, Mr Steven Skala, having led the Company for six years, continues to serve as a Non-Executive Director of the Company.

On 7 August 2008, Hexima announced a development and commercialisation agreement with DuPont business, Pioneer

Hi-Bred International, Inc., for certain biotech fungal disease resistance technology in corn, soybeans and other crops. In this collaboration, Pioneer and Hexima will combine certain intellectual property and anti-fungal protein assets to accelerate the development and commercialisation of transgenic fungal disease resistance technology. Hexima will lead the initial stage research and crop validation and Pioneer will lead the late stage development.

As part of the agreement with Pioneer, Hexima has acquired exclusive commercialisation rights to certain Pioneer technology and pursuant to a placement agreement and in consideration for this intellectual property, Hexima has issued 4,000,000 ordinary shares at $1.50 per share. The financial effects of this share issue have not been recorded in the 30 June 2008 financial statements.

Other than the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Dividends

The Company has not paid or declared any dividends during or since the end of the financial year ended 30 June 2008.

Likely Developments

Further disclosure of information regarding likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because, in the opinion of the Directors, disclosure of the information may prejudice the interests of the Company.

REMUNERATION REPORT – AUDITED

Principles of Remuneration – Audited

Key management personnel (including Directors of the Company and other executives) have authority and responsibility for planning and controlling the activities of the Company. For the financial year ended 30 June 2008, key management personnel comprises all Directors, executives and the Company Secretary, being Mr Steven Skala, Professor Jonathan West, Mr Hugh Morgan, Mr Dan O'Brien, Professor Adrienne Clarke, Professor Marilyn Anderson, Dr Robyn Heath, Ms Justine Heath and Mr Adam Hall. Remuneration levels for key management personnel are set to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee obtains independent advice on remuneration packages and reviews remuneration at least on an annual basis.

Remuneration structures take into account the capability and experience of key management personnel. Remuneration includes a mix of fixed and variable remuneration as well as short and long term incentives.

Fixed Remuneration

Fixed remuneration consists of base remuneration, which is calculated on a total cost basis and includes any FBT charges related to employee benefits, as well as employer contributions to superannuation funds.

Performance Linked Remuneration

Performance linked remuneration may include short and long term incentives.

Short term incentive bonuses are based on the satisfaction of specified performance criteria, which may include financial or non-financial objectives. The Remuneration Committee approves the offer and payment of short term incentive bonuses to key management personnel and to other employees.

Long term incentives may be provided as options over the Company's ordinary shares and other securities. No options were issued to key management personnel during the financial year.

The Remuneration Committee considers that the above performance-linked compensation structure is generating the desired outcome.

Service Contracts

The Company has entered into service contracts with key management personnel, which outline the components of compensation paid to key management personnel, but do not prescribe how compensation levels are modified from year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

All employment contracts may be terminated immediately for cause or for material underperformance, except in the case of Mr Hofheimer, whose contract requires that the Company give him 10 days' notice of termination for cause or material underperformance.

GF Dan O'Brien
Mr O'Brien was Managing Director and Chief Executive Officer of Hexima until 30 June 2008, and was appointed Chairman of the Board of Directors from 1 July 2008.

Hexima contracts Dromoland Capital Pty Limited to provide Mr O'Brien's services. Mr O'Brien is the controlling shareholder, the director and a full time employee of Dromoland Capital Pty Limited.

Joshua T Hofheimer
Mr Hofheimer was employed by the Company from May 2008 and he was formally appointed as Chief Executive Officer/Managing Director from 1 July 2008. Mr Hofheimer has an employment contract with the Company, which has an unlimited term, but may be terminated by Mr Hofheimer giving the Company six months' notice or by the Company giving Mr Hofheimer 60 days' notice. The Company retains the right to terminate the contract immediately, by making payment equal to 60 days' pay in lieu of notice.

Subject to shareholder approval, Mr Hofheimer's remuneration package includes a long-term incentive of 1,000,000 Initial Share Options (exercisable at $nil), with a two year vesting period, and 2,000,000 Share Options (exercisable at $1.25) with 25% of these options having a 2, 3, 4 and 5 year vesting period. If Hexima terminates Mr Hofheimer's employment other than for cause within the first 2 years of employment, the 1,000,000 Initial Share Options (exercisable at $nil) and the first 25% of the unvested Share Options will vest immediately. If Hexima terminates Mr Hofheimer's employment after the first two years of employment, Mr Hofheimer will be entitled to exercise all the Share Options that have already vested, plus the next 25% portion of the unvested Share Options. If Hexima terminates Mr Hofheimer's employment for cause at any time, Mr Hofheimer will have no entitlement or right to any of the unvested Initial Share Options or unvested Share Options.

Professor Adrienne E Clarke
Professor Clarke, Deputy Chairman and Chief Science Officer, has an employment contract with the Company. Her employment contract may be terminated by Professor Clarke giving the Company six months' notice or by the Company giving Professor Clarke three months' notice. The Company retains the right to terminate the contract immediately, by making payment equal to three months' pay in lieu of notice.

Professor Marilyn A Anderson
Professor Anderson, Senior Vice President Research and Discovery, is an employee of La Trobe University and Hexima contracts her services through a Research Agreement with the university. In addition to her employment by the university, Professor Anderson also has an employment contract with the Company. This employment contract has a term of three years from 1 December 2007 and may be terminated with six months' notice by the employee.

Dr Robyn L Heath
Dr Heath, Senior Vice President Product Development is an employee of The University of Melbourne, and Hexima contracts her services through a Research Agreement with the university. In addition to her employment by the university, Dr Heath also has an employment contract with the Company. This employment contract has a term of three years from 1 December 2007 and may be terminated with six months' notice by the employee.

Justine C Heath
Ms Heath, Company Secretary and Chief Financial Officer, has an employment contract with the Company for an unlimited term, which may be terminated with two months' notice by either party. The Company retains the right to terminate the contract immediately, by making payment equal to two months' pay in lieu of notice. The Company is required to provide six months' salary in lieu of notice in the event of a change of control of the Company.

Adam L Hall
Mr Hall, Chief Operating Officer until 30 November 2007, had an employment contract with the Company for an unlimited term, which could be terminated with six months' notice by either party. The Company had the right to terminate the contract immediately by making payment equal to six months' pay in lieu of notice.

Non-Executive Directors – Audited

The Constitution provides that Non-Executive Directors may be paid or provided fees or other remuneration for their services as a Director of Hexima (including as a member of any Directors' committee). The total amount or value of this remuneration must not exceed $500,000 (including mandatory superannuation) per annum or such other maximum amount determined by the Company in a general meeting.

A Non-Executive Director may be paid remuneration for services outside the scope of ordinary duties of the Director. Non-Executive Directors may also be paid expenses properly incurred in attending meetings or otherwise in connection with the Company's business.

Fees payable to Non-Executive Directors for the financial year ended 30 June 2008 were set at $55,000 per annum for Non-Executive Directors and $110,000 per annum for the Chairman. Additional 'per diem' fees are paid where services rendered are above normal requirements.

Details of the nature and amount of each major element of the remuneration of each Director of the Company and each of the named officers of the Company (including key management personnel) receiving the highest remuneration are included in the table following.

Directors' and Executive Officers' Remuneration – Audited

Details of the nature and amount of each major element of remuneration of each Director of the Company and each key management personnel are:

		Short term employee benefits			Share based payments					
		Fixed Remuneration (Salary & Fees)	Short Term Incentive (cash)	Total Short-term employee benefits	Share Options Issued	Converting Notes Issued	Post Employment Benefits – Superannuation	Total Remuneration	Proportion of remuneration performance related	Value of Options as proportion of Remuneration
Non-executive Directors										
	2008	100,918	-	100,918	-	-	9,082	110,000	-	-
Steven M Skala	2007	25,230	-	25,230	-	-	2,270	27,500	-	-
Jonathan West	2008	106,458	-	106,458	-	-	4,541	110,999	-	-
	2007	12,615	-	12,615	-	-	1,135	13,750	-	-
Hugh M Morgan	2008	44,852	-	50,458	-	-	4,542	55,000	-	-
	2007	7,009	-	7,009	-	-	630	7,639	-	-
Executive Directors										
GF Dan O'Brien(2)	2008	600,000	-	600,000	-	-	-	600,000	-	-
(CEO/Managing Director)	2007	95,343	110,080	205,423	-	250,000	5,527	460,950	79%	-
Adrienne E Clarke	2008	308,798	-	308,798	-	-	27,792	336,590	-	-
(Chief Science Officer)	2007	-	121,680	121,680	-	-	119,950	241,630	50%	-
Joshua T Hofheimer(3)	2008	69,711		69,711	-	-	1,717	71,428	-	-
(CEO/Managing Director-Elect)	2007	-	-	-	-	-	-	-	-	-
Executives										
Marilyn A Anderson(4)	2008	72,203	-	72,203	-	-	6,498	78,701	-	-
(Senior Vice President, Research & Discovery)	2007	-	12,615	12,615	-	-	1,135	13,750	-	-
Robyn L Heath(5)	2008	16,991	-	16,991	-	-	24,666	41,657	-	-
(Senior Vice President Product Development)	2007	-	12,615	12,615	-	-	1,135	13,750	-	-
Justine C Heath(6)	2008	136,778	-	136,778	-	-	12,309	149,087	-	-
(CFO, Co. Secretary)	2007	-	-	-	-	-	-	-	-	-
Adam L Hall(7)	2008	224,462	-	224,462	-	-	39,062	263,524	-	-
(Chief Operating Officer)	2007	-	-	-	-	-	-	-	-	-
Total	**2008**	**1,681,171**	**-**	**1,686,777**	**-**	**-**	**130,209**	**1,816,986**	**-**	**-**
Total	**2007**	**140,197**	**256,990**	**397,187**	**-**	**250,000**	**131,782**	**778,969**	**65%**	**-**

1. No options were granted to Directors or Executive Officers during the years ended 30 June 2007 or 30 June 2008.

2. Converting notes to the value of $250,000 were issued as compensation to a related entity of Mr O'Brien on 19 December 2006. These notes were subsequently fair valued as at 30 June 2007 to $1,000,000 in accordance with Note 15, with the $750,000 fair value adjustment included in Note 8 as 'net fair value adjustment on converting note.'

3. Mr Hofheimer commenced employment with the Company on 25 May 2008 and was officially appointed CEO/Managing Director from 1 July 2008.

4. Professor Anderson is employed by La Trobe University. The Company engages her services through a Research Agreement with the university and through a separate direct employment agreement commencing from 1 December 2007. The salary as per the direct employment contract is $280,000 per annum of which the Company pays $134,916 per annum and $145,084 per annum is paid by La Trobe University. The amount shown in the table above represents payments made directly to Professor Anderson by the Company only.

5. Dr Heath is employed by The University of Melbourne. The Company engages her services through a Research Agreement with the university and through a separate direct employment agreement commencing from 1 December 2007. The salary as per the direct employment contract is $180,000 per annum of which the Company pays $66,128 per annum and $113,872 per annum is paid by The University of Melbourne. The amount shown in the table above represents payments made directly to Dr Heath by the Company only.

6. Ms Heath commenced employment on 1 September 2007.

7. Mr Hall resigned on 30 November 2007.

Directors' Interests

Set out below are details of the interests of the Directors in office at 30 June 2008 in the shares of the Company, rights or options over such instruments. Interests include those held directly and indirectly.

Director	Total shares 30 June 2008	Options over shares 30 June 2008
Steven M Skala	4,012,730	1,057,768
Adrienne E Clarke	5,417,919	1,096,971
GF Dan O'Brien	4,844,768	1,231,456
Jonathan West	1,611,702	300,000
Hugh M Morgan	6,454,503	303,031
Total	22,341,622	3,989,226

Share Options

The Company did not issue any options to Directors or key management personnel during or since the end of the financial year ended 30 June 2008.

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
31 December 2009	$0.50	4,969,702
31 December 2009	$0.31	928,425
31 December 2009	$0.16	154,737
30 June 2010	$2.00	800,000
30 June 2012	$2.00	1,600,000
16 May 2013	$nil	112,000
		8,564,864

No options have been exercised by Directors or key management personnel, and no options have lapsed, either during or after the end of the financial year ended 30 June 2008. Options over 303,031 shares were exercised at a total exercise price of $0.50 during the year ended 30 June 2008. Options over 112,000 shares were issued to staff (not including key management personnel) during the financial year ended 30 June 2008. These options have a service vesting requirement of three months from grant date but no further performance hurdles.

Auditors

Non-Audit Services

During the year KPMG, the Company's auditor, has performed certain services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided by the auditor do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amount paid or payable to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

Audit Services	($) 2008	($) 2007
Audit of the annual financial report	47,000	53,000
Review of half year financial report	21,000	-
Services other than statutory audit		
Preparation of Investigating Accountant's Report	-	65,000
Special grant audit	3,000	-
Tax compliance services	11,100	-
Migration services	5,765	-
	87,865	118,000

Indemnification of Officers

No indemnities were given or insurance premiums paid during the financial year for any person who was an auditor of the Company. The company has not indemnified any directors. During the financial year ended 30 June 2008, the Company paid insurance premiums of $100,100 (including taxes) in respect of Directors' and Officers' liability and legal expenses insurance contracts, for current and former Directors and Officers of the Company. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain personal advantage.

LEAD AUDITORS' INDEPENDENCE DECLARTION UNDER SECTION 370C OF THE CORPORATIONS ACT 2001

The Lead Auditor's Independence Declaration is set out on page 48 and forms part of the Directors' Report for the ended 30 June 2008.

This report is made pursuant to a resolution of the Directors.

Mr GF Dan O'Brien	Mr Joshua T Hofheimer
Director	Director

Dated this 22nd day of August

INCOME STATEMENT

For the Year Ended 30 June 2008

	Notes	($) 2008	($) 2007
Revenue	6	1,155,504	542,740
Contracted research expenditure		(2,156,583)	(1,658,791)
Other research & development expenditure		(87,873)	-
Patent and legal expenses		(634,226)	(277,240)
Field trial expenses		(161,810)	(161,172)
Marketing & business development expenses		(389,539)	(53,979)
Employee benefits expense		(2,703,846)	(778,969)
Depreciation expense		(29,443)	(8,321)
Other expenses	7	(433,222)	(528,210)
		(6,596,542)	(3,466,682)
Results from operating activities		**(5,441,038)**	**(2,923,942)**
Financial income	8	2,411,129	40,612
Financial expense	8	-	(8,483,700)
Net financing income/(expenses)		**2,411,129**	**(8,443,088)**
Loss before income tax		**(3,029,909)**	**(11,367,030)**
Income tax expense		-	-
Loss for the period		**(3,029,909)**	**(11,367,030)**
Earnings per share			
Basic earnings per share	24	(0.045)	(0.386)
Diluted earnings per share	24	(0.045)	(0.386)

The accompanying notes form part of these financial statements

BALANCE SHEET

As at 30 June 2008

	Notes	($) 2008	($) 2007
Current Assets			
Cash and cash equivalents	10	35,614,053	2,833,360
Receivables	11	789,465	134,221
Total Current Assets		36,403,518	2,967,581
Non-Current Assets			
Investments	12	2	2
Plant and equipment	13	261,470	82,410
Total Non-Current Assets		261,472	82,412
Total Assets		36,664,990	3,049,993
Current Liabilities			
Trade and other payables	14	1,702,207	1,871,107
Loans and borrowings	15	-	11,479,013
Deferred income	16	600,000	600,000
Employee benefits	17	14,085	-
Total Current Liabilities		2,316,292	13,950,120
Non-Current Liabilities			
Deferred Income	16	600,000	1,200,000
Total Non-Current Liabilities		600,000	1,200,000
Total Liabilities		2,916,292	15,150,120
Net Assets/(Deficiency)		33,748,698	(12,100,127)
Equity			
Share capital	18	51,198,035	2,361,456
Reserves	18	254,155	212,000
Accumulated losses		(17,703,492)	(14,673,583)
Total Equity/(Deficiency)		33,748,698	(12,100,127)

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2008

	Note	Ordinary Shares	Equity option reserve	Equity compensation reserve	Accumulated Losses	Total equity
2008		**$**	**$**	**$**	**$**	**$**
Opening balance at 1 July 2007		2,361,456	200,000	12,000	(14,673,583)	(12,100,127)
Net (loss) for the period		-	-	-	(3,029,909)	(3,029,909)
Total recognised income and expense for the period		-	-	-	(3,029,909)	(3,029,909)
Issue of ordinary shares, 27 August 2007						
– on conversion of converting notes	18	11,311,597	-	-	-	11,311,597
– for cash on Initial Public Offering		40,000,000	-	-	-	40,000,000
Issue of ordinary shares on exercise of options	18	151,516	-	-	-	151,516
Issue of share options	18	-	-	42,155	-	42,155
Less: Transaction costs, net of tax		(1,838,574)	-	-	-	(1,838,574)
Deferred tax asset in respect of transaction costs for raising share capital not recognised		(787,960)	-	-	-	(787,960)
Closing balance at 30 June 2008		51,198,035	200,000	54,155	(17,703,492)	33,748,698

	Note	Ordinary Shares	Equity option reserve	Equity compensation reserve	Accumulated Losses	Total equity
2007		**$**	**$**	**$**	**$**	**$**
Opening balance at 1 July 2006		2,095,609	-	12,000	(3,306,553)	(1,198,944)
Net (loss) for the period		-	-	-	(11,367,030)	(11,367,030)
Total recognised income and expense for the period		-		-	(11,367,030)	(11,367,030)
Issue of ordinary shares	18	265,847	-	-	-	265,847
Issue of Share Options	18	-	200,000	-	-	200,000
Closing balance at 30 June 2007		2,361,456	200,000	12,000	(14,673,583)	(12,100,127)

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2008

	Notes	($) 2008	($) 2007
Cash Flows From Operating Activities			
Cash receipts from government grants & collaboration agreements		675,267	2,291,016
Cash paid to suppliers and employees		(6,746,899)	(2,068,894)
Cash receipts from research & development tax concession		-	324,655
Net cash (used in)/from operating activities	20b	(6,071,632)	546,777
Cash Flows From Investing Activities			
Interest received		1,667,118	40,612
Payments for plant and equipment		(172,359)	(71,229)
Net cash from/(used in) investing activities		1,494,759	(30,617)
Cash Flows From Financing Activities			
Proceeds from issue of converting notes		-	859,300
Proceeds from issue of share capital	18	40,000,000	265,846
Transaction costs relating to issue of shares	18	(2,626,534)	-
Proceeds from issue of share options	18	-	200,000
Proceeds from exercise of share options	18	151,516	-
Payment of loan	15	(167,416)	-
Net cash from financing activities		37,357,566	1,325,146
Net increase in cash and cash equivalents		32,780,693	1,841,306
Cash and cash equivalents at 1 July		2,833,360	992,054
Cash and cash equivalents at 30 June	20a	35,614,053	2,833,360

The accompanying notes form part of these financial statements

1. Reporting Entity

Hexima Limited (the 'Company') is a Company domiciled in Australia. The address of the Company's registered office is Level 5, 114 William Street, Melbourne, Victoria, 3000. Hexima is an agribusiness Company actively engaged in the research and development of technology for the protection and enhancement of commercial crops, primarily to enhance their resistance to insects and fungal pathogens.

The accounts of Hexima Limited, the Company, are also to be read as the consolidated entity as the Company financial statements do not differ materially to the consolidated entity.

2. Basis of Preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

The financial statements were approved by the Board of Directors on 21st August 2008.

(b) Basis of measurement

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments and liabilities for cash-settled share based payment arrangements which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

Note 15 – derivative financial instruments are measured at fair value.

Note 19 – measurement of share-based payments.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods by the Company.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call term deposits.

Accounting for finance income and expense is discussed in note 3(h).

(ii) Converting notes

Non-redeemable converting notes which convert to share capital and where the number of shares issued vary with changes in their fair value are accounted for as hybrid financial instruments, split between host contract debt and derivative debt. The derivative debt component embedded in hybrid convertible notes is calculated at its fair value at the time of recognition of the convertible notes and then fair valued on an on-going basis with changes recognised in the profit and loss account. Converting notes are recognised in the balance sheet upon issue. For partly paid converting notes, a receivable is recognised to the extent of the unpaid amount.

(iii) Other non-derivative financial instruments
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(iv) Derivative financial instruments

Separable embedded derivatives
Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(v) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Other incremental costs not attributable to issue of ordinary shares are expensed as incurred.

Dividends
Dividends are recognised as a liability in the period in which they are declared.

(b) Plant and equipment

(i) Recognition and measurement
Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs
The Company recognises in the carrying amount of an item of plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The depreciation/amortisation rates used for each class of asset are as follows:

	2008	2007
Plant and equipment	15% – 37.5%	15% – 37.5%
Office equipment	33%	33%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(c) Foreign Currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

(d) Investment

Investment in controlled entity is measured at the lower of cost and recoverable amount. The carrying amount of the investment is reviewed annually by directors to ensure it is not in excess of the recoverable amount of the investment.

(e) Impairment

(i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non-financial assets
The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Calculation of recoverable amount
The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value

in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the 'cash generating unit').

(f) Revenue

Grant revenue

Government grant income that compensates the Company for expenses incurred is recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

Research grants and collaboration fees

Research grants and collaboration fees represents revenue received from entities who fund and/or participate in the collaborative research initiatives of the Company. When services in respect of collaborative research activities are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight line basis over the period of the collaborative research agreement. Unrecognised revenue, representing payments received during the year for services to be provided in the future, is recognised as deferred income.

(g) Research expenditure

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred. Patent costs relating to research activities are expensed as incurred.

(h) Finance income and expenses

Finance income comprises interest income on term deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise changes in the fair value of convertible note liability at fair value through the profit and loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences where the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Segment Reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Company primarily operates in one sector, being the agricultural biotechnology industry, developing and/or commercialising agricultural biotechnology research. The majority of operations are in Australia.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on costs, such as workers' compensation insurance and payroll tax.

Long term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated Commonwealth Government bonds that have maturity dates approximating the terms of the Group's obligations.

(m) Share based payment transactions

Equity Settled

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period that the employee becomes unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest except for those that fail to vest due to market conditions not being met.

(n) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options issued.

(o) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Derivatives

The fair value of separable embedded derivatives included in the converting note liability is based on the Company's initial listed market price on Initial Public Offering.

Share-based payment transactions

The fair value of employee share options at grant date is measured using the Binomial Approximation Option Pricing method (2007: Black-Scholes formula). Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of converting note (cash-settled) share-based payment transactions at grant date is measured on the basis of the fair value of the converting note at that date. Measurement subsequent to balance date is based on available market evidence as to fair value, as noted above.

(p) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly 'primary' statement) the 'statement of comprehensive income'. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's disclosures.
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the amending standard on the Company's financial report.

4. Financial Risk Management

Overview

The Company has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the oversight of risks. The Company maintains a control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivable from the Government in respect of research grants.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company prepares and monitors budgets to manage its liquidity for the short and long term.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Board of Directors oversee market risk exposures to optimise returns.

Currency risk

The Company's currency risk is limited to trade and other payables that are denominated in a currency other than the functional currency of the Company, primarily US dollar (USD). Given the minimal value of foreign currency transactions the Company does not enter into contracts to hedge currency risk. At 30 June 2008, there were no receivables denominated in foreign currencies, however there were amounts payable of $74,606 (2007: $44,191).

Interest rate risk

The Company does not have any interest expenses. Interest income is earned on term deposits and cash at bank, which are based on prevailing market rates.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

5. Segment Reporting

The Company primarily operates in one sector, being the agricultural biotechnology industry developing and/or commercialising agricultural biotechnology research. The majority of operations are in Australia.

6. Revenue

	($) 2008	**($) 2007**
Government grants	455,504	392,125
Research grants and collaboration fees	700,000	150,615
	1,155,504	542,740

7. Other Expenses

Administration & compliance costs	251,143	178,514
Capital raising expense	-	307,196
Other expenses	182,079	42,500
	433,222	528,210

8. Finance Income and Expense

	($) 2008	**($) 2007**
Interest income on term deposit and cash at bank	2,411,129	40,612
Financial income	2,411,129	40,612
Net fair value adjustment on converting note	-	(8,483,700)
Finance expense	-	(8,483,700)
Net finance income and expense	2,411,129	(8,443,088)

9. Income Tax

(a) Numerical reconciliation between tax expense and pre-tax net profit

Loss before tax	(3,029,909)	(11,367,030)
Income tax using the domestic corporation tax rate of 30% (2007: 30%)	(908,972)	(3,410,109)
Increase/(decrease) in income tax expense due to:		
Other non-deductible expenses	-	148,999
R & D concessional increment	(163,971)	(91,845)
Non-deductible share based payment	12,647	75,000
Net fair value adjustment on converting note derivative	-	2,545,110
Temporary differences not brought to account	(356,350)	532,149
Tax losses not brought to account	1,416,646	200,696
Income tax expense/(benefit) on pre-tax net profit	-	-

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Temporary differences	824,430	393,091
Tax losses	2,318,760	902,114
Total	3,143,190	1,295,205

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company could utilise the benefits therefrom. Comparative amounts have been restated to reflect assessed balances.

10. Cash and Cash Equivalents

Current	($) 2008	($) 2007
Cash on hand	3,605	1,275
Cash at bank	672,980	2,751,320
Term deposit	34,937,468	80,765
	35,614,053	2,833,360

11. Receivables

Current	($) 2008	($) 2007
Trade receivables	42,383	127,073
Accrued interest	744,011	-
Prepayments	3,071	7,148
	789,465	134,221

The Company's exposure to credit and currency risks and impairment losses related to trade receivables is disclosed in note 22.

12. Investments

Non-current		
Shares in Pharmagra Pty Ltd (formerly Hexima BioTech Pty Ltd) at cost	2	2

Pharmagra Pty Ltd is incorporated in Australia and is a 100% owned subsidiary of the Company. Pharmagra Pty Ltd has total assets and net assets of $2.00 at 30 June 2008.

13. Plant and Equipment

	Plant and Equipment ($)	Office Equipment ($)	Total ($)
Cost			
Balance at 1 July 2006	39,219	21,645	60,864
Additions	67,135	4,094	71,229
Balance at 30 June 2007	106,354	25,739	132,093
Balance at 1 July 2007	106,354	25,739	132,093
Additions	160,069	48,434	208,503
Balance at 30 June 2008	266,423	74,173	340,596
Depreciation			
Balance at 1 July 2006	23,120	18,242	41,362
Depreciation for the year	7,198	1,123	8,321
Balance at 30 June 2007	30,318	19,365	49,683
Balance at 1 July 2007	30,318	19,365	49,683
Depreciation for the year	18,447	10,996	29,443
Balance at 30 June 2008	48,765	30,361	79,126
Carrying amounts			
At 1 July 2006	16,099	3,403	19,502
At 30 June 2007	76,036	6,374	82,410
At 1 July 2007	76,036	6,374	82,410
At 30 June 2008	217,658	43,812	261,470

14. Trade and Other Payables

Current	($) 2008	($) 2007
Trade payables	1,060,135	1,744,585
Other trade payables & accrued expenses	642,072	126,522
	1,702,207	1,871,107

Included in trade payables is an amount of $28,263 (2007: $356,323) in respect of key management personnel accrued remuneration.

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

15. Loans and Borrowings

This note provides information about the contractual terms of the Company's loans and borrowings.

Current	($) 2008	($) 2007
Loan from UMEE Ltd	-	167,416
Converting notes	-	11,311,597
	-	11,479,013

Loan from UMEE Ltd

UMEE Ltd (formerly Melbourne University Private Ltd), a wholly owned subsidiary of The University of Melbourne, advanced an interest free loan of $167,416 to the Company on an unsecured basis. With the successful completion of the Initial Public Offering on 27 August 2007, the loan was repaid during the financial year.

Converting Notes	Note	($) 2008	($) 2007
Opening balance at 1 July *		11,311,597	2,577,897
Conversion of converting notes to ordinary shares on Initial Public Offering	18	(11,311,597)	-
Net fair value adjustment on converting note derivative		-	8,483,700
Issued as cash-settled share based payment		-	250,000
Carrying amount of liability at 30 June		-	11,311,597
Number of instruments on issue		-	2,827,897

* In June 2005 shareholders were invited to subscribe, pro-rata to their existing shareholding in the Company, for Converting Notes with a Face Value of $3,000,000. Subsequent to the offer to shareholders, subscriptions were received for $2,577,897. The Converting Notes were issued partly paid and all instalments were received at 31 December 2006. In December 2006 Converting Notes with a Face Value of $250,000 were issued as compensation, taking the total number of Converting Note instruments on issue to 2,827,897 as at 30 June 2007.

These Converting Notes were non-redeemable and convertible to ordinary shares at the earlier of the achievement of the Liquidity Event as defined in the Converting Note Commitment Agreement or 31 December 2009. The conversion price was the greater of 25% of the value of the ordinary shares at the time of the Liquidity Event or 5c per share.

The Company completed a capital raising issuing shares via a Prospectus dated 6 July 2007 at $1.25 per share. The offer closed on 10 August 2007 and the Company listed on the Australian Stock Exchange on 27 August 2007. The capital raising was a Liquidity Event as defined in the Converting Note Commitment Agreement. Upon successful completion of the issue, the 2,827,897 Converting Notes converted to 9,049,270 fully paid ordinary shares

In respect of the 2007 financial year the total expense of converting notes granted was $250,000, which was included in employee benefits expense in the income statement. An additional $750,000 arising from measuring the converting notes to fair value was recorded as finance expense in 2007 (see note 8). The fair value of the converting notes at grant date was determined based on the fair value of the converting note instrument at that date.

16. Deferred Income

Hexima has entered into a Research and Development Agreement with Balmoral Australia Pty Limited ('Balmoral'), whereby Balmoral has paid Hexima $1,800,000 to conduct research on its behalf for three years commencing 1 July 2007. The contract has a term of three years expiring on 30 June 2010. In accordance with the Company's accounting policy in respect of collaborative research agreements, the $1,800,000 is being recognised as income over the three year collaborative research period. Accordingly, $600,000 has been recognised as income in the year ended 30 June 2008 and the current and non-current portion of deferred income of $600,000 each as at 30 June 2008 represents the total income to be earned within the next two years.

17. Employee Benefits

Current	($) 2008	($) 2007
Liability for annual leave	14,085	-
	14,085	-

18. Capital and Reserves

Reconciliation of movement in capital and reserves

	Number of shares		Amount	
Ordinary Shares	**2008**	**2007**	**($) 2008**	**($) 2007**
On issue at 1 July	33,224,006	25,047,905	2,361,456	2,095,609
Issued at no cost	-	30,500	-	-
Issued for cash	32,000,000	7,595,601	40,000,000	265,847
Transaction costs, net of tax	-	-	(1,838,574)	-
Deferred tax assets relating to transaction costs not recognised	-	-	(787,960)	-
Conversion of converting notes	9,049,270	-	11,311,597	-
Exercise of share options	303,031	550,000	151,516	-
On issue at 30 June – fully paid	74,576,307	33,224,006	51,198,035	2,361,456

	Number of options		Amount	
Equity option reserve	**2008**	**2007**	**($) 2008**	**($) 2007**
On issue at 1 July	2,400,000	-	200,000	-
Issued for consideration	-	2,400,000	-	200,000
On issue at 30 June – fully paid	2,400,000	2,400,000	200,000	200,000

	Number of options		Amount	
Equity compensation reserve	**2008**	**2007**	**($) 2008**	**($) 2007**
On issue at 1 July	6,355,895	6,905,895	12,000	12,000
Issued as compensation	112,000	-	42,155	-
Exercise of share options (1)	(303,031)	(550,000)	-	-
On issue at 30 June – fully paid	6,164,864	6,355,895	54,155	12,000

The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(1) The options were exercised at $0.50 cash per share on 3 January 2008.

Equity Compensation Reserve

The equity compensation reserve represents the accumulated amount of share options vested to key management personnel and other personnel under compensation schemes.

Equity Option Reserve

The equity option reserve comprises the accumulated amount of share options issued to other parties.

19. Share-Based Payments

The terms and conditions of the grants are as follows. All options are to be settled by physical delivery of shares.

Grant date / parties entitled	Number of instruments	Vesting conditions	Contractual life of options
Option granted to founding investors on 2 May 2002	4,969,702	Past services, immediate vesting	7.67 years
Option granted to directors on 14 October 2003	928,425	Past services, immediate vesting	6.22 years
Option granted to directors on 14 October 2003	154,737	Past services, immediate vesting	6.22 years
Option granted to third parties for R&D Collaboration on 29 June 2007	800,000	Past services, immediate vesting	3 years
Option granted to third parties for R&D Collaboration on 29 June 2007	1,600,000	Past services, immediate vesting	5 years
Option granted to non-key management personnel on 16 May 2008	112,000	3 months service	5 years
Total share options	8,564,864		

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2008	**2008**	**2007**	**2007**
Outstanding at 1 June	$0.88	8,755,895	$0.88	8,755,895
Exercised during the period	$0.50	(303,031)	-	-
Granted during the period	$nil	112,000	-	-
Outstanding at 30 June	$0.89	8,564,864	$0.88	8,755,895

The options outstanding at 30 June 2008 have an exercise price in the range of $nil to $2 and a weighted average contractual life of 2.06 years.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial approximation option pricing model, incorporating the probability of the relative total shareholder return vesting condition being met, with the following inputs:

Fair value of share options and assumptions	2008	2007
Non key management personnel		
Fair value at grant date	$0.8615	-
Share price	$0.8615	-
Exercise price	$nil	-
Expected volatility (weighted average volatility)	74.78%	-
Option life (expected weighted average life)	5 years	-
Expected dividends	0.00%	-
Risk-free interest rate (based on government bonds)	6.34%	-
Employee expenses		
Share options granted in 2008 – equity settled	$42,155	-
Total expense recognised as employee costs	$42,155	-

20. Notes to the Statement of Cashflow

20a. Reconciliation of Cash

Reconciliation of cash at the end of the period (as shown in the statement of cash flows) to the related items in the accounts is as follows:

	Note	($) 2008	($) 2007
Cash on hand and at bank	10	35,614,053	2,833,360

20b. Reconciliation of Cash Flows From Operating Activities

Cash flows from operating activities		
Loss for the period	(3,029,909)	(11,367,030)
Adjustments for:		
Issue of converting note as share based payment	-	250,000
Fair value adjustment on converting note derivative	-	8,483,700
Interest received – classified as investing activity	(1,667,118)	(40,612)
Depreciation	29,443	8,321
Equity settled share based payment expense	42,155	-
Operating loss before changes in working capital	(4,625,429)	(2,665,621)
(Increase)/decrease in trade and other receivables	(655,244)	(51,725)
Increase/(decrease) in payables	(154,815)	1,139,468
Plant and equipment acquired on credit included in trade payables	(36,144)	-
Increase/(decrease) in deferred income	(600,000)	1,800,000
(Increase)/decrease in tax rebate receivable	-	324,655
Net cash from/(used in) operating activities	(6,071,632)	546,777

21. Auditors' Remuneration

Audit Services	($) 2008	($) 2007
Auditors of the Company		
KPMG Australia		
– Audit of the annual financial report	47,000	53,000
– Review of half year financial statements	21,000	-
Other Services		
Auditors of the Company		
KPMG Australia		
– Preparation of Investigating Accountants' Report	-	65,000
– Research grant audit	3,000	-
– Tax compliance services	11,100	-
– Migration services	5,765	-
	87,865	118,000

22. Financial Instruments

Credit Risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at 30 June was:

	Note	($) 2008	($) 2007
Trade receivables – Government	11	42,383	127,073
Accrued interest on bank term deposits	11	744,011	-
Cash on hand and at bank	10	35,614,053	2,833,360
		36,400,447	2,960,433

Impairment Losses

None of the Company's receivables are past due (2007: nil) and no impairment losses have been recognised (2007: nil). The entire amount of trade receivables is due from the Department of Industry, Tourism and Resources in regards to a Commercial Ready grant.

The Company is in the development phase of its research and development programme. The Company's income is currently limited to interest on cash and term deposits, Australian government grants and collaborative research agreements where income is received in advance. Accordingly, risk of impairment losses is minimal.

Liquidity Risk

The Company has no financial liabilities except for trade and other payables with a carrying value of $1,702,207 (note 14), which are payable in cash and have a maturity of less than 6 months. In 2007, the Company had a loan from UMEE Ltd of $167,416 and convertible notes of $11,311,597, which had a maturity of less than 6 months and were respectively settled via repayment of cash and the issue of shares in 2008 financial year.

Currency risk

At 30 June 2008, there were no receivables denominated in foreign currencies, however there were amounts payable of $74,606 (2007: $44,191).

Sensitivity analysis
A 10% strengthening of the Australian dollar against the following currencies at 30 June would have increased equity and decreased the loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Loss reduction ($)
30 June 2008	
USD	6,773
30 June 2007	
USD	4,017

A 10% weakening of the Australian dollar would have increased the loss for the year and decreased equity by $8,278 in 2008 (2007: $4,910)

Interest Risk
Exposure to interest rate risks arises in the normal course of the Company's business in respect of interest income on term deposit (note 10) and cash at bank (note 10).

Fixed rate instruments
In respect of term deposits a 100 basis points increase in interest rates would have decreased the loss by $349,375. A 100 basis points decrease in interest rates would have increased the loss by $349,375.

Variable rate instruments
In respect of cash at bank a 100 basis points increase in interest rates would have decreased the loss by $6,730. A 100 basis points decrease in interest rates would have increased the loss by $6,730.

Estimation of fair values
The fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs. The carrying value of financial assets and liabilities approximates the fair value at 30 June 2007 and 30 June 2008.

23. Contingencies

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measure.

Guarantee and Indemnification

The Company has an Institutional Biosafety Committee (IBC) to advise on certain aspects of the Company's field trial applications. The Company has agreed to indemnify, release and forever discharge the members of the IBC from and against any claim or liability, incurred by the members, arising in connection with the conduct of field trials and related applications being undertaken by the Company. The financial exposure from this arrangement is expected to be nil.

24. Earnings Per Share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 30 June 2008 was based on a loss attributable to ordinary shareholders of $3,029,909 (2007: $ 11,367,030) and a weighted average number of ordinary shares of 67,916,404, calculated as follows:

Loss attributable to ordinary shareholders	($) 2008	($) 2007
Loss for the period after income tax	3,029,909	11,367,030

Weighted average number of shares used as a denominator

Number for basic earnings per share		
Ordinary shares	67,916,404	29,451,679
Number for diluted earnings per share		
Ordinary shares	67,916,404	29,451,679

Instruments not included in diluted earnings per share due to anti-dilutionary effect

	Number of shares 2008	Number of shares 2007
Converting notes	-	9,049,270
Share options	8,564,864	8,755,895
	8,564,864	17,805,165

25. Material Items

	($) 2008	($) 2007
Included in the pre-tax operating results are the following material items:		
Included in net finance (costs)/income:		
Fair value adjustment on converting note derivative	-	(8,483,700)

26. Related Parties

Directors

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were Directors for the entire period:

Executive Directors
Professor Adrienne E Clarke
Mr GF Dan O'Brien

Non-Executive Directors
Mr Steven M Skala
Professor Jonathan West
Mr Hugh M Morgan

Executives
Professor Marilyn A Anderson
Dr Robyn L Heath
Ms Justine C Heath (appointed 1 September 2007)
Mr Adam L Hall (resigned 30 November 2007)
Mr Joshua T Hofheimer (CEO/Managing Director-Elect)

The key management personnel compensation included in 'employee benefits expense' is as follows:

	($) 2008	($) 2007
Short term employee benefits	1,686,777	397,187
Post employment benefits	130,209	131,782
Share based payments	-	250,000
	1,816,986	778,969

Individual directors and executive compensation disclosures

Information regarding individual directors and executives compensation disclosures as permitted by Corporations Regulation 2M.3.03. is provided in the remuneration report section of the Directors' Report

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2007 & 2008	Held at 1 July 2006 and 1 July 2007	Granted as compensation	Exercised	Held at 30 June 2007 and 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2007 and 30 June 2008
Directors						
Steven M Skala	1,057,768	-	-	1,057,768	-	1,057,768
Jonathan West	300,000	-	-	300,000	-	300,000
Hugh M Morgan	303,031	-	-	303,031	-	303,031
Adrienne E Clarke	1,096,971	-	-	1,096,971	-	1,096,971
GF Dan O'Brien	1,231,456	-		1,231,456	-	1,231,456
Executives						
Marilyn A Anderson	500,000	-	-	500,000	-	500,000
Robyn L Heath	500,000	-	-	500,000	-	500,000
	4,989,226	-	-	4,989,226	-	4,989,226

There were no share options granted to or exercised by key management personnel during the year ended 30 June 2008.

Movement in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2008	Held at 1 July 2007	Shares from converting notes	Shares issued under offer	Purchases	Received on exercise of options	Sales	Held at 30 June 2008
Directors							
Steven M Skala	2,892,730	960,000	160,000	-	-	-	4,012,730
Jonathan West	491,702	960,000	160,000	-	-	-	1,611,702
Hugh M Morgan	4,354,503	1,600,000	500,000	-	-	-	6,454,503
Adrienne E Clarke	4,525,026	732,893	160,000	-	-	-	5,417,919
GF Dan O'Brien	2,924,768	1,760,000	160,000	-	-	-	4,844,768
Executives							
Marilyn A Anderson	2,381,935	-	-	-	-	-	2,381,935
Robyn L Heath	2,381,935	-	-	-	-	-	2,381,935
	19,952,599	6,012,893	1,140,000	-	-	-	27,105,492

2007	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Held at 30 June 2007
Directors					
Steven M Skala	1,909,093	983,637	-	-	2,892,730
Jonathan West	-	491,702	-	-	491,702
Hugh M Morgan	3,015,152	1,339,351	-	-	4,354,503
Adrienne E Clarke	3,906,179	618,847	-	-	4,525,026
GF Dan O'Brien	1,909,093	1,015,675	-	-	2,924,768
Executives					
Marilyn A Anderson	2,381,935	-	-	-	2,381,935
Robyn L Heath	2,381,935	-	-	-	2,381,935
	15,503,387	4,449,212	-	-	19,952,599

Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

Mr Joshua Hofheimer was appointed Chief Executive Officer/ Managing Director of the Company. Mr Dan O'Brien, one of the Company's foundation shareholders and Chief Executive Officer since 2002, was appointed Chairman. Former Chairman and foundation shareholder, Mr Steven Skala, having led the Company for six years, continues to serve as a non-executive Director of the Company.

Other key management personnel disclosures with the Company

Other related parties

a) Dr Heath was an employee of The University of Melbourne during the financial year ended 30 June 2008. During the course of the financial year ended 30 June 2008, amounts (including GST) totaling $1,397,738 (2007: $1,180,516) were paid or payable by Hexima to The University of Melbourne for research work carried out on behalf of Hexima. These transactions were conducted on normal commercial terms. Trade accounts and/ or accruals payable to The University of Melbourne at 30 June 2008 were $771,451 (2007: $672,336).

b) Mr O'Brien is the sole director of Dromoland Capital Pty Limited. An amount (including GST) of $784,631 (2007: $253,321) was paid or provided to be paid to this entity during the financial year ended 30 June 2008 for services provided to Hexima. These transactions were conducted on normal commercial terms. This amount includes $600,000 for the provision of Mr O'Brien's services as Managing Director of the Company, $32,780 for provision of office space and secretarial, administration, taxation and accounting services, $104,955 direct reimbursement for the provision of consulting services (including preparation of the Initial Public Offering documentation and preparation and submission of applications and ongoing administration of government grants) at no margin and $46,896 direct reimbursement of identifiable expenses incurred on the Company's behalf at no margin. Trade accounts and/or accruals payable to Dromoland Capital Pty Limited at 30 June 2008 were $NIL (2007: $3,128). Following the listing of the Company in August 2008 and the development of its administration capacity, expenses are being incurred directly by the Company, rather than by Dromoland on Hexima's behalf.

c) Mr O'Brien is sole director of Leslie Manor Pty Limited ('Leslie Manor'). An amount (including GST) of $8,568 (2007: $4,618) was paid to this entity during the year ended 30 June 2008. The Company reimbursed Leslie Manor, at no margin, for the lease of a motorbike used in conducting the Company's field trials. The Company purchased the motorbike from Leslie Manor during the year ended 30 June 2008.

d) Professor Anderson is an employee of La Trobe University. During the course of the financial year ended 30 June 2008, amounts (including GST) totaling $1,048,030 (2007: $641,738) were paid or payable by Hexima to La Trobe University for research work carried out on behalf of the Company. These transactions were conducted on normal commercial terms. Trade accounts and/or accruals payable to La Trobe University at 30 June 2008 were $667,016 (2007: $432,738).

e) Dr Heath is a director of Michael Barnes Graphics Pty Ltd. An amount (including GST) of $NIL (2007: $1,847) was paid to this entity during the financial year ended 30 June 2008 for graphic design services provided to Hexima. These transactions were conducted on normal commercial terms.

f) Mr Skala is a consultant to Arnold Bloch Leibler. Mr Skala retired as a partner of Arnold Bloch Leibler in 2004. An amount (including GST) of $116,523 (2007: $176,046) was paid to Arnold Bloch Leibler during the financial year ended 30 June 2008 for legal services (and expenses associated therewith) provided to Hexima. These services were provided and expenses incurred on normal commercial terms. Trade accounts and/or accruals payable to Arnold Bloch Leibler at 30 June 2008 were $2,208 (2007: $55,792).

g) Mr Skala is a director of Wilson HTM Investment Group Limited, who underwrote the capital raising completed in August 2007. These services were provided on normal commercial terms. Underwriting fees of $2,570,000 and expense reimbursement of $14,152 were paid to Wilson HTM Investment Group during the financial year ended 30 June 2008 (2007: $NIL).

h) Mr Hofheimer was previously a partner of Sidley Austin LLP. An amount of $170,254 (2007: $63,471) was paid to Sidley Austin during the year ended 30 June 2008 for legal services (and expenses associated therewith) provided to Hexima. These transactions were on normal commercial terms.

27. Events Subsequent to Reporting Date

On 1 July 2008, Mr Joshua Hofheimer was appointed Chief Executive Officer/Managing Director of the Company. Mr Dan O'Brien, one of the Company's foundation shareholders and Chief Executive Officer since 2002, was appointed Non-Executive Chairman. Former Chairman and foundation shareholder, Mr Steven Skala, having led the Company for six years, continues to serve as a Non-Executive Director of the Company.

On 7 August 2008, Hexima announced a development and commercialisation agreement with DuPont business, Pioneer Hi-Bred International, Inc., for certain biotech fungal disease resistance technology in corn, soybeans and other crops. In this collaboration, Pioneer and Hexima will combine certain intellectual property and anti-fungal protein assets to accelerate the development and commercialisation of transgenic fungal disease resistance technology. Hexima will lead the initial stage research and crop validation and Pioneer will lead the late stage development.

As part of the agreement with Pioneer, Hexima has acquired exclusive commercialisation rights to certain Pioneer technology and pursuant to a placement agreement and in consideration for this intellectual property, Hexima has issued 4,000,000 ordinary shares at $1.50 per share. The financial effects of this share issue have not been recorded in the 30 June 2008 financial statements.

28. Adjustment to Interim Financial Report for the Six Months Ended 31 December 2007

In respect of the Company's interim financial report for the six months ended 31 December 2007, an income tax expense of $787,960 (relating to the derecognition of deferred tax assets in respect of capital raising costs) was recorded in the interim income statement for the period ended then. Subsequent to 31 December 2007, the income tax expense of $787,960 has been reversed from the income statement and recorded directly in equity as the relevant capital raising costs have also been recorded directly in equity. Had this change been adopted for the six month period ended 31 December 2007, the income tax expense reduces to $nil, the net loss after tax decreases to $1,524,376 and basic and diluted earnings per share changes to a loss of $0.025 from loss of $0.038. The net assets at 31 December 2007 remain unchanged, where the issued capital and accumulated losses each decrease by $787,960.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Hexima Limited ('the Company'):
   (a) the financial statements and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report set out on pages 16 to 44, are in accordance with the Corporations Act 2001, including:
      (i) giving a true and fair view of the financial position of the Company as at 30 June 2008 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards (including the Australian Accounting interpretations) and the Corporations Regulations 2001;
   (b) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standards AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and
   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 259A of the Corporations Act 2001 from the Chief Executive Officer/Managing Director and the Chief Financial Officer for the financial year ended 30 June 2008.

Dated at Melbourne, 22nd day of August 2008.

Signed in accordance with a resolution of the Directors:

Mr GF Dan O'Brien
Director

Mr Joshua T Hofheimer
Director

Independent auditor's report to the members of Hexima Limited

Report on the financial report

We have audited the accompanying financial report of Hexima Limited ("the Company"), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 28 and the directors' declaration set out on pages 27 to 45.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Hexima Limited is 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 2008 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Report on the remuneration report

We have audited the Remuneration Report included in pages 22 to 24 of the directors' report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Hexima Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG
KPMG

Ferguson

Ralph Ferguson
Partner

Melbourne
22 August 2008

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Hexima Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Ralph M Ferguson
Partner

Melbourne
22 August 2008

SHAREHOLDER INFORMATION

Shareholder information set out below was applicable as at 30 September 2008

1. Distribution of Equity Securities

	Holders	Ordinary Shares	%
1 to 1,000	35	29,487	0.04
1,001 to 5,000	312	1,085,497	1.38
5,001 to 10,000	241	2,056,381	2.62
10,001 to 100,000	339	9,940,182	12.65
100,001 and Over	60	65,464,761	83.31
Totals	987	78,576,308	100.00

There were 9 holders of less than a marketable parcel of shares

2. Twenty largest equity security holders

	Name	Number Held	%
1	Balmoral Australia Pty Ltd	6,102,180	7.77%
2	Hugh Morgan	5,954,503	7.58%
3	Clianth Pty Ltd	4,213,510	5.36%
4	Pioneer Hi-Bred International Inc.	4,000,000	5.09%
5	Adrienne Clarke	3,894,922	4.96%
6	National Nominees Limited	3,498,744	4.45%
7	Huysmans Pty Ltd	2,932,513	3.73%
8	Beta Gamma Pty Ltd <Walsh Street Super Fund A/C>	2,604,693	3.31%
9	Copplemere Pty Ltd <ATF Skala Media Trust A/C>	2,469,093	3.14%
10	Woobinda Nominees Pty Ltd	2,469,093	3.14%
11	Robyn Heath	2,381,935	3.03%
12	Marilyn Anderson	2,381,935	3.03%
13	Invia Custodians Pty Ltd <GF & PA O'Brien S/F A/C>	2,375,675	3.02%
14	J P Morgan Nominees Australia Limited	2,164,648	2.75%
15	Gowing Bros Ltd	1,868,898	2.38%
16	Dr Jonathan West	1,611,702	2.05%
17	Joshua Custodians Pty Ltd <Steven Skala Super A/C>	1,543,637	1.96%
18	AEC Super Pty Ltd	1,522,997	1.94%
19	Casey Manor Pty Ltd	1,116,080	1.42%
20	Amcil Limited	875,000	1.11%
	Total	**55,981,758**	**71.25%**

3. Unquoted equity securities

	Number on issue	Number of holders
Options issued	8,452,864	14

4. Substantial Shareholders

Name	Number Held	%
Hugh Morgan	6,454,503	8.21%
Robert Oatley	6,102,180	7.77%
Adrienne Clarke	5,417,919	6.90%
Wilson HTM Investment Group Limited and Associates	5,385,326	6.85%
GF Dan O'Brien	4,844,768	6.17%
Clianth Pty Ltd	4,213,510	5.36%
Steven Skala	4,012,730	5.11%
Pioneer Hi-Bred International	4,000,000	5.09%

5. Voting Rights

On a show of hands each person as a member, proxy, attorney or representative has one vote, and on a poll each member present or by proxy, attorney or representative has one vote for each share held.

CORPORATE DIRECTORY

Hexima Limited
ABN 64 079 319 314

Directors

Mr GF Dan O'Brien
Chairman

Mr Joshua T Hofheimer
Chief Executive Officer

Professor Adrienne E Clarke, AC
Deputy Chairman

Mr Steven M Skala
Non-Executive Director

Mr Hugh M Morgan, AC
Non-Executive Director

Professor Jonathan West
Non-Executive Director

Company Secretary

Ms Justine C Heath

Registered Office

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Auditor

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Melbourne VIC 3000

Legal Advisors

Arnold Bloch Leibler
Level 21, 333 Collins Street
Melbourne VIC 3000

Bankers

National Australia Bank

Westpac Banking Corporation

Stock Exchange Listings

Australian Stock Exchange
(Code HXL)

Share Registry

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Melbourne VIC 3000

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