

**Narhex Life Sciences Limited
(Subject to Deed of Company Arrangement)
(ACN 094 468 318)**

**NOTICE OF GENERAL MEETING
AND
EXPLANATORY STATEMENT**

General Meeting to be held at Level 2, 90 William Street, Melbourne, Victoria, 3000 on 5 November 2010 commencing at 10AM (EST).

The Deed Administrators have given their consent to convene the meeting and to despatch this Notice of Meeting and the accompanying Explanatory Statement, but have taken no part in the preparation of these documents and express no opinion about any of their contents including but in no way limited to any statements regarding the Recapitalisation Proposal, other than that set out in their report to the Company's Creditors dated 8 April 2010. The Deed Administrators make no recommendations about how Shareholders should vote on the resolutions contained in the Notice of Meeting and have not undertaken any due diligence in relation to the Recapitalisation Proposal. They have relied on discussions with Tittel Pty Ltd and its advisors. The Directors have prepared and take responsibility for these documents and have caused the despatch of this Notice of Meeting and the accompanying Explanatory Statement.

This Notice of Meeting and Explanatory Statement should be read in its entirety. If Shareholders are in doubt as to how to vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

**RECAPITALISATION PROPOSAL OF
NARHEX LIFE SCIENCES LIMITED
(Subject to Deed of Company Arrangement)
(ACN 094 468 318)**

General Information

This Notice of Meeting and Explanatory Statement sets out information about the proposed recapitalisation of the Company.

Completion of the recapitalisation will result in:

- (a) the restructure of the Company's capital base;
- (b) the raising of working capital for the Company;
- (c) the possible appointment of a new board of directors;
- (d) termination of the Deed of Company Arrangement (DOCA) and retirement of the Deed Administrators;
- (e) settlement of all provable debts of the creditors of the Company in accordance with the Deed of Company Arrangement; and
- (f) application for reinstatement to the ASX.

Further details of the Recapitalisation Proposal are provided in Section 2 of the Explanatory Statement. A short explanation of each Resolution to be considered at the General Meeting is set out in Section 3 of the Explanatory Statement. Definitions of capitalised terms used in the Notice of Meeting and Explanatory Statement are set out in Section 6 of the Explanatory Statement.

In considering the Resolutions, Shareholders must bear in mind the current financial circumstances of the Company. If the Resolutions are passed and the proposed recapitalisation is completed, the Company would be in a position to seek re-quotation of its securities on ASX. This re-quotation will be subject to compliance with ASX and Corporations Act regulatory requirements.

Resolutions 1 to 6 (inclusive) are subject to and conditional upon each and every Resolution being passed. Accordingly, these Resolutions should be considered collectively as well as individually. If Shareholders reject the proposed recapitalisation, through the rejection of any one of Resolutions 1 to 6 (inclusive), it is probable that the Company will proceed into liquidation. In those circumstances, it is unlikely there will be any return to Shareholders.

If the Resolutions are passed and the proposed recapitalisation is unable to be completed through the inability to raise funds through the Prospectus Issue then the Company is most likely to lose its remaining interest in its major asset.

The Resolutions are therefore important and affect the future of your Company. You are urged to give careful consideration to the Notice of Meeting and the contents of the Explanatory Statement.

NOTICE OF GENERAL MEETING
Narhex Life Sciences Limited
(Subject to Deed of Company Arrangement)
(ACN 094 468 318)

Notice is given that a General Meeting of Shareholders is to be held at Level 2, 90 William Street, Melbourne, Victoria, 3000 on 5 November 2010 commencing at 10AM (EST).

SPECIAL BUSINESS

The business to be transacted at the General Meeting is the proposal of Resolutions 1 to 8 as set out below.

Resolution 1 – Consolidation of Capital

To propose and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That subject to Resolutions 2 to 6 (inclusive) being passed and in accordance with section 254H of the Corporations Act, Listing Rule 7.20 and the Company’s Constitution and for all other purposes, approval be and is hereby given to the consolidation of the Existing Shares in the Company on a 1 for 10 basis as detailed in the Explanatory Statement, with any fractional entitlements being rounded up to the nearest whole number. The Record Date will be 6 Business Days from the date of the General Meeting at which this Resolution is passed.”

Resolution 2 – Issue of New Shares – Tittel or its Nominees

To propose and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That subject to Resolution 1 and 3 to 6 (inclusive) being passed, and in accordance with Listing Rules 7.1 and 10.11, and section 208 (1) of the Corporations Act, and for all other purposes, approval be and is hereby given to the issue of 133,333,334 Proponent Shares to Tittel or its nominees at an issue price of \$0.003 each per Share to raise \$400,000 as detailed in the accompanying Explanatory Statement.”

Resolution 3 – Prospectus Issue

To propose and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That subject to Resolutions 1, 2 and 4 to 6 (inclusive) being passed and in accordance with Listing Rule 7.1 and for all other purposes, approval be and is hereby given to the issue of up to 250,000,000 New Shares at an issue price of not less than \$0.01 each to raise not less than \$2,500,000 under a Prospectus. The issue of New Shares pursuant to the Prospectus will occur no later than 3 months, or such later date as permitted by the Listing Rules, from the date of this General Meeting.”

Resolution 4 – Ratification of Shareholders' Agreement

To propose and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That subject to Resolutions 1 to 3 (inclusive) and 5 and 6 being passed, the entry by the Company into a shareholders' agreement with Tittel Pty Ltd in the form or substantially in the form comprising Annexure B to the deed of company arrangement dated 7 May 2010 between Richard Albarran and David Ross as administrators of the Company, the Company and Tittel Pty Ltd, be ratified."

Resolution 5 – Ratification of Share Transfer

To propose and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That subject to Resolutions 1 to 4 (inclusive) and 6 being passed, the transfer of one half of the issued shares in Narhex Life Sciences International Pty Ltd from the Company to Tittel Pty Ltd, in accordance with clauses 7(a) and (b) of the deed of company arrangement dated 7 May 2010 between Richard Albarran and David Ross as administrators of the Company, the Company and Tittel Pty Ltd, be ratified."

Resolution 6 – Conditional Share Transfer

To propose and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That subject to Resolutions 1 to 5 (inclusive) being passed, the transfer of the remaining one half of the issued shares in Narhex Life Sciences International Pty Ltd from the Company to Tittel Pty Ltd, in accordance with clauses 7(g) of the deed of company arrangement dated 7 May 2010 between Richard Albarran and David Ross as administrators of the Company, the Company and Tittel Pty Ltd, as set out in the Explanatory Statement, be approved."

Resolution 7 – Issue of New Shares – Tittel or its Nominees

To propose and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That in accordance with Listing Rule 7.1 and for all other purposes, approval be and is hereby given to the issue of 26,666,666 New Shares to Tittel Pty Ltd or its nominees at an issue price of not less than \$0.003 each per Share to raise not less than \$80,000 as detailed in the accompanying Explanatory Statement. This issue of New Shares will occur no later than 3 months, or such later date as permitted by the Listing Rules, from the date of this General Meeting."

Resolution 8 - Change of Company Name

To consider and if thought fit, to pass, with or without amendment, the following as a **special resolution**:

"That in accordance with section 157(1) of the Corporations Act, and for all other purposes, the Company change its name from "Narhex Life Sciences Limited" to "Narhex Limited".

Voting Exclusion Statement

The following voting exclusion statement applies to the Resolutions under the Listing Rules or where applicable, the provisions of the Corporations Act in relation to the following persons (**Excluded Persons**). The Company will disregard any votes on the following Resolutions cast by the following Excluded Persons:

Resolution Number.	Title	Excluded Persons
2	Issue of Proponent Shares	Tittel or its nominees, the Directors and any Associate of those persons.
3	Prospectus Issue	(a) Any person who may participate in the proposed issue and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder of ordinary securities, if the resolution is passed, and any of their Associates; and (b) a person who is to receive securities in relation to the entity and their Associates.
4, 5 and 6	Ratification of Shareholders' Agreement, Share Transfer and Conditional Share Transfer	Tittel or its nominees, the Directors and any Associate of those persons.
7	Issue of New Shares to Tittel and/or its nominee	Tittel or its nominees and any Associate of those persons.

However the Company need not disregard a vote if it is cast by:

- (a) a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Explanatory Statement

The accompanying Explanatory Statement forms part of this Notice of Meeting and should be read in conjunction with it.

Resolutions 1 to 6 (inclusive) are subject to and conditional upon each and every Resolution being passed. Accordingly, these Resolutions should be considered collectively as well as individually. Shareholders are specifically referred to Section 6 of the Explanatory Statement which contains definitions of capitalised terms used in this Notice of Meeting and the Explanatory Statement.

Proxies

Please note that:

- (a) a Shareholder entitled to attend and vote at the general meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company;
- (c) a Shareholder may appoint a body corporate or individual as its proxy;
- (d) a body corporate appointed as a Shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Shareholder's proxy; and
- (e) Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If a Shareholder appoints a body corporate as its proxy and the body corporate wishes to appoint an individual as its representative, the body corporate should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that body corporate's representative. The authority may be sent to the Company or its share registry in advance of the General Meeting or handed in at the General Meeting when registering as a corporate representative.

Voting Entitlements

In accordance with Regulations 7.11.37 and 7.11.38 of the Corporations Regulations 2001, the Company has determined that a person's entitlement to vote at the General Meeting will be the entitlement of that person set out in the register of Shareholders as at 5pm (WST) on

3 November 2010. Accordingly, transactions registered after that time will be disregarded in determining Shareholders' entitlement to attend and vote at the General Meeting.

Dated: 5 October 2010

By Order of the Board of Directors

David Mandel

Director

Narhex Life Sciences Limited (Subject
to Deed of Company Arrangement)

EXPLANATORY STATEMENT TO SHAREHOLDERS

PROPOSAL FOR THE RECAPITALISATION OF NARHEX LIFE SCIENCES LIMITED

(Subject to Deed of Company Arrangement)

ACN 094 468 318

IMPORTANT NOTICE

This Explanatory Statement has been prepared to assist Shareholders with their consideration of the resolutions necessary to implement the Recapitalisation Proposal. The Deed Administrators have given their consent to convene the meeting and to despatch this Explanatory Statement and the accompanying Notice of Meeting, but have taken no part in the preparation of those documents and express no opinion about the Recapitalisation Proposal, other than that set out in their report to the Company's Creditors dated 8 April 2010. The Deed Administrators make no recommendations about how Shareholders should vote on the resolutions contained in the Notice of Meeting and in particular, the Deed Administrators have not undertaken any due diligence in relation to the Recapitalisation Proposal. They have relied on discussions with Tittel and their advisors. The Directors have prepared and taken responsibility for these documents and have caused the despatch of this Explanatory Statement and the accompanying Notice of Meeting.

Shareholders should read this Explanatory Statement in full and if they have any questions, obtain professional advice before making any decisions in relation to the resolutions to be put to Shareholders at the meeting.

This Explanatory Statement includes information and statements that are both historical and forward-looking. To the extent that any statements relate to future matters, Shareholders should consider that they are subject to risks and uncertainties. None of the Company, its Directors, the Deed Administrators or their advisors can assure Shareholders that forecast or implied results will be achieved.

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EXPLANATORY STATEMENT

1 INTRODUCTION

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the Resolutions in the accompanying Notice of Meeting.

This Explanatory Statement should be read in conjunction with the Notice of Meeting. Capitalised terms in this Explanatory Statement are defined in Section 6 of this Explanatory Statement.

2 THE RECAPITALISATION PROPOSAL

2.1 Background

On 9 February 2010, Richard Albarran and David Ross (**Administrators**) were appointed as joint and several administrators of the Company pursuant to Part 5.3A of the Corporations Act.

On 16 April 2010, an adjourned meeting of the Company's Creditors was convened pursuant to Section 439A of the Corporations Act to consider, amongst other things, the execution of a Deed of Company Arrangement (**DOCA**).

By resolution of the adjourned meeting of Creditors, the Creditors resolved that the Company execute the DOCA between the Administrators, the Company and Tittel Pty Ltd (**Tittel**). The DOCA was executed on 7 May 2010.

Upon request, a copy of the DOCA is available for inspection at the office of Hall Chadwick at Level 14, 45 William Street, Melbourne, Victoria.

Under, and in accordance with, the terms of the DOCA, the following have been undertaken (in the order set out below):

- (a) The Company established Narhex Life Sciences International Pty Ltd (**NLSI**) as a wholly owned subsidiary of the Company;
- (b) The Company transferred all its shares in:
 - (i) Narhex Limited, a Hong Kong corporation;
 - (ii) Xian Hex Life Sciences Company Limited, a Chinese corporation; and
 - (iii) Cavid AB, a Swedish corporation;(**Subsidiaries**) to NLSI;
- (c) Tittel paid the sum of \$125,000 to the Administrators and advanced the sum of \$125,000 to the Company (**Loan Funds**);
- (d) The Company transferred one half of its shares in NLSI to Tittel;

- (e) The Administrators appointed Ian Reynolds and Tony Say as directors of the Company, and reappointed David Mandel in addition to Peter Nash; and
- (f) The Company entered into a Shareholders' Agreement substantially in the form annexed to the DOCA, which Shareholders' Agreement governs the management and governance of NLSI.

Under the DOCA the following remain to be carried out:

- (g) The holding of a meeting of members of the Company to consider, and if thought fit, pass the Resolutions 1 to 6 (inclusive) as set out in the Notice of Meeting accompanying this Explanatory Statement;
- (h) Subject to the passing of all the Resolutions referred to in paragraph (g) above, Tittel or its nominee subscribing for 133,333,334 Shares at an issue price of \$0.003 per Share (for a total sum of \$400,000);
- (i) Completion of all matters necessary by the Administrators in relation to the DOCA and the administration of the Company generally; and
- (j) Application of the proceeds of the Administrators' Fund available for payment of creditors in accordance with clauses 14, 15 and 16 of the DOCA.

2.2 Principal Features of the Recapitalisation Proposal

The DOCA was executed to facilitate the recapitalisation of the Company. The principal features of the Recapitalisation Proposal are set out below:

- (a) **Consolidation of Capital:** Consolidation of the existing issued capital of the Company on a 1 for 10 basis (See Resolution 1 and Section 3.3).
- (b) **Issue of Proponent Shares to Tittel or its nominees:** The issue of 133,333,334 Proponent Shares at an issue price of \$0.003 each per Share to raise \$400,000 to Tittel or its nominees (See Resolution 2 and Section 3.4).
- (c) **Prospectus Issue:** The issue of up to 250,000,000 New Shares in the Company at a price of not less than \$0.01 each under a Prospectus to raise not less than \$2,500,000. (See Resolutions 3 and Sections 3.5).
- (d) **Establishment of NLSI:** The establishment of a new entity Narhex Life Sciences International Pty Ltd (NLSI) into which the Company is to transfer all of its shareholding in the Subsidiaries. NLSI is currently owned 50% by Tittel and 50% by the Company.

In establishing NLSI, the Company also entered into a Shareholders Agreement substantially in the form annexed to the DOCA which governs the management and governance of NLSI. Pursuant to the terms of the DOCA, shareholder approvals are required to ratify the entry by the Company into the Shareholders Agreement (Resolution 4 and Section 3.6), ratify the transfer of one half of the issued shares in NLSI from the Company to Tittel Pty Ltd (See Resolution 5 and Section 3.7) and approve the transfer of the remaining one half of the issued shares in NLSI from the Company to Tittel, in the event the Loan Funds are not repaid (See Resolution 6 and Section 3.8).

As set out above, the DOCA provided that \$400,000 would be raised from the issue of 133,333,334 Shares to Tittel or its nominees at \$0.003 per Share, with this amount required to conclude the payment to the Deed Administrators and the Creditors. It is proposed that an additional amount of \$80,000 also be raised to assist with the payment of third party costs relating to the implementation of the Recapitalisation Proposal (See Resolution 7 and Section 3.9).

Completion of the Recapitalisation Proposal will restructure the Company's issued capital and net asset base, provide working capital, terminate the DOCA, and provide a new direction. Further, due to the DOCA, all existing provable debts against the Company will be released, extinguished and barred, with Admitted Creditors claims only able to be met from the funds provided by Tittel to the Deed Administrators in accordance with the terms of the DOCA.

Following recapitalisation of the Company, the Company will be in a position to make an application for reinstatement to ASX, subject to compliance with ASX and Corporations Act regulatory requirements.

For information on the Company's operational plans following the Recapitalisation Proposal refer to Section 2.5.

2.3 Trident Agreement

Trident Capital Pty Ltd, a company experienced in reconstructions and reinstatement of ASX Listed Companies, have agreed to assist Tittel with the reconstruction and reinstatement of the Company. The key terms of that agreement are that:

- (a) Trident will be paid commercial fees commensurate with activities of this nature by the Company for work done through the reconstruction process and on reinstatement to the ASX of the Company;
- (b) Trident will participate in the capital raising through the Proponent Shares; and
- (c) Trident will assist with, and may participate in, the capital raising through the Prospectus issue.

As such Trident will be a nominee of Tittel for New Shares as stated in the Explanatory Statement.

2.4 Indicative Timetable

Set out in the table below is the expected timing for completion of the Recapitalisation Proposal, subject to compliance with all regulatory requirements. These dates are indicative only and may be varied without prior notice.

	Date
General Meeting of Existing Shareholders	5 November 2010
Record Date for Consolidation of Capital	15 November 2010
Issue of Proponent Shares	16 November 2010
Payment to Administrator	17 November 2010
Lodgement of Prospectus with ASIC	16 December 2010

Termination of DOCA and retirement of Deed Administrators	12 January 2011
Prospectus closes	31 January 2011
Allotment of New Shares	4 February 2011
Commencement of trading of New Shares on ASX	11 February 2011

2.5 Operational and Expenditure Plans of the Company

The Company proposes to raise sufficient working capital to finalise and complete the Recapitalisation Proposal and to continue and expand the existing activities of the Company. As part of the working capital budget, the Company may pursue new projects by way of acquisition or investment.

(a) Capital Raisings

The capital raising of at least \$2,980,000 contemplated by the Resolutions in the Notice of Meeting will be made to enable the recapitalisation of the Company to be completed and to enable the Company to meet its initial objectives and expenditure plans. On successful completion of the capital raising, the Company will make an application to ASX for its Shares to be reinstated on the Official List.

The purpose of the capital raising is to:

- (i) fund the Company's on-going operations;
- (ii) provide funds to examine the possible acquisition and development of other investments, as identified by the Company; and
- (iii) meet the administration costs of the Company and the expenses of the recapitalisation of the Company, including payments for the benefit of Creditors pursuant to the DOCA and the repayment of the Loan to Tittel.

(b) **Expenditure Plans and Use of Funds**

The Company's review and development plans are the best estimates available to the Company at this time. It is important to recognise that although certain parts of the budget allocations are committed expenditures, work programs are subject to changes in line with emerging results, circumstances and opportunities.

It is proposed that the funds raised under the capital raising will be applied as follows:

	Year 1	Year 2
<i>Total funds raised</i>	\$2,980,000	-
Utilised as follows:		
Review, evaluation and development of the Company's existing businesses	\$150,000	-
Development of DG17 including clinical trials and reporting	\$500,000	\$250,000
Identification and consideration of other business opportunities	\$200,000	\$100,000
Total general working capital budget	\$850,000	\$350,000
Payment to the Deed Administrator to satisfy final obligations to the creditor's under the DOCA	\$400,000	-
Repay Loan from Tittel	\$125,000	
Expenses associated with the Recapitalisation Proposal	\$475,000	-
Total funds utilised	\$1,850,000	\$350,000
Cash at Bank – End of Year	\$1,130,000	\$780,000

2.6 Proforma Capital Structure

The proforma capital structure of the Company on completion of the Recapitalisation Proposal is as follows:

Description	Resolution	Number of Shares	% Interest
Existing Shares		201,172,902	100%
1:10 Capital Consolidation (i)	Resolution 1	20,117,290	4.68%
Issue Proponent Shares and issue to Tittel and/or its nominees - Notes (ii) (v) (vi)	Resolutions 2 and 7	160,000,000	37.20%
Prospectus Issue - Note (iii)	Resolution 3	250,000,000	58.12%
TOTALS		430,117,290	100%

Notes

- (i) Refer to commentary in Section 3.3 of this Explanatory Statement.
- (ii) Refer to commentary in Section 3.4 of this Explanatory Statement.
- (iii) Refer to commentary in Section 3.5 of this Explanatory Statement.
- (iv) Refer to commentary in Section 3.6 of this Explanatory Statement.
- (v) Refer to commentary in Section 3.9 of this Explanatory Statement.
- (vi) Securities issued will not result in a breach of Chapter 6 of the Corporations Act.

2.7 Quotation of New Shares On ASX

The Company is already admitted to the Official List, however, trading in the Existing Shares was suspended in March 2008. Following completion of the Recapitalisation Proposal, the Company will apply to ASX for re-quotation of the New Shares. Reinstatement to ASX is at the discretion of ASX and will be subject to compliance with ASX and Corporations Act regulatory requirements. At the date of this Explanatory Statement, ASX has indicated to the Company that on the basis of the information provided to ASX, the Recapitalisation Proposal will not affect the Company being re-admitted to the Official List.

2.8 Proforma Statement of Financial Position

Included below is the Pro-Forma Statement of Financial Position for the Company, assuming completion of the Recapitalisation Proposal should all the Resolutions be passed. As the Company is likely to be in a position to continue trading following the Recapitalisation proposal, the Net Assets on a Going Concern basis is the most appropriate methodology for valuing a Company share post completion of the Recapitalisation Proposal.

	NOTE	Unaudited as at 8 April 2010 \$	Pro-Forma if Recapitalisation Proposal approved and completed \$
Assets			
<i>Current</i>			
Cash and cash equivalents	1	7,180	1,987,180
<i>Non-Current</i>			
Intangible Assets	2	250,000	125,000
Total Assets		257,180	2,112,180
Liabilities			
Provision for Priority Expenses / Creditors,	3	(381,630)	0
Secured Creditors	3	0	0
Unsecured Creditors	3	(1,133,245)	0
Total Liabilities		(1,514,875)	0
Net Assets/(Liabilities)		(1,257,695)	2,112,180
Shares on issue	4	201,172,902	430,117,920
Value of a Share		(\$0.006)	\$0.005

NOTES:

1. Cash and Cash Equivalents

Cash and cash equivalents have been adjusted for the expected changes that will result from the recapitalisation of the Company. These adjustments are set out below:

Description	Amount
Cash prior to Recapitalisation Proposal	7,180
Cash Received from Tittel under the Recapitalisation Proposal	480,000
Cash Received from Prospectus	2,500,000
Payment to Creditor's under DOCA	(400,000)
Repayment of Loan from Tittel	(125,000)
Payment for reconstruction costs and Prospectus costs	(475,000)
Cash Following Proposal	1,987,180

2. Intangible Assets

Tittel have effectively acquired 50% of the Company's intangible property, and its investments in the Chinese Joint Venture Xi'an Hex Life Sciences Co Limited, the asset of shares in Cavid AB. The intellectual property comprises the rights for the Company's anti-HIV protease inhibitor DG17 and the pro-drug of the active anti-HIV drug DG35. Tittel paid \$125,000 to achieve the transfer of the above assets into NLSI and the associated transfer of 50% of the shares in NLSI to Tittel.

Hence the Intangible Value of 100% of the assets is \$250,000 in the unaudited accounts as at April 8 2010 and 50% of the assets is valued at \$125,000 in the pro-forma accounts.

The Directors have an ongoing belief in the inherent value of this Property, but the value recognises significant work and expenditure still required to achieve positive commercial outcomes.

3. Provision for Legal and Deed Administrator Fees/Unsecured Creditors

If the Recapitalisation Proposal is approved then the provision for legal and Deed Administrators fees and unsecured creditors will be settled by the total payment of \$650,000 to the Deed Administrators and the Creditors in accordance with the DOCA.

4. Shares on Issue

Description	Number of Shares
Current shares on issue	201,172,902
Shares on issue following consolidation	20,117,290
Shares issued to Tittel or nominees under the Recapitalisation Proposal	133,333,334
Shares issued under the Prospectus	250,000,000
Additional Shares issued to Tittel or nominees	26,666,666
Total Adjustments	430,117,290

2.9 Forgiveness of Creditors' Claims

As part of the Recapitalisation Proposal, a total sum of \$650,000 will be payable by Tittel to the Administrators' Fund as follows:

- (a) the Administrators' Fund will be established for the sole benefit of the Creditors;
- (b) the sum of \$650,000 will be paid to the Administrators' Fund as follows:
 - (i) \$125,000 by way of a cash payment;
 - (ii) \$125,000 by way of Loan Funds; and
 - (iii) \$400,000 by subscribing for 133,333,334 New Shares at \$0.003 per New Share.

The DOCA will terminate after all of the conditions under the DOCA have been satisfied, and the obligations thereunder are performed (as set out in Section 4.6(e) of the Explanatory Statement). However, if any of the DOCA conditions are not satisfied the DOCA may be terminated and the Company may be placed in liquidation or alternatively, the Deed Administrators (at their discretion) may elect another proponent to undertake the recapitalisation of the Company.

3 GENERAL MEETING

3.1 Action to be Taken by the Existing Shareholders

In order to proceed with the Recapitalisation Proposal, the Company must convene a General Meeting of Existing Shareholders for the purposes of passing the Resolutions in compliance with the requirements of the Listing Rules and the Corporations Act. The Notice of Meeting convening the General Meeting is included at the front of this booklet. Existing Shareholders are encouraged to attend and vote in favour of each of the Resolutions to be put at the General Meeting.

If an Existing Shareholder is not able to attend and vote at the General Meeting, the Existing Shareholder is encouraged to complete the proxy form at the back of this booklet and return it to the Company at the address stated on the proxy form not later than 48 hours before the time specified for the commencement of the General Meeting.

3.2 General Meeting Resolutions

There are 8 Resolutions to be put to the General Meeting.

Resolutions 1 to 8 (inclusive) are ordinary resolutions.

Resolutions 1 to 6 (inclusive) in the Notice of Meeting are conditional on the passing of each of the other of those Resolutions, so that those Resolutions will not have any effect unless each of the Resolutions is passed. Resolutions 7 and 8 are not conditional on the passing of other Resolutions. In the event Resolution 7 is passed, the Directors may issue the New Shares to Tittel or nominees if considered

appropriate in the circumstances. In the event Resolution 8 is passed, the Company will change its name in accordance with the provisions of the Corporations Act.

Certain voting restrictions are imposed in relation to some of the Resolutions as detailed in the accompanying Notice of Meeting under the heading "Voting Exclusion Statement".

A short explanation of each Resolution is set out in this Section 3.

3.3 Resolution 1 – Consolidation of Capital

Resolution 1 is an ordinary resolution.

It proposes that the issued capital of the Company be altered by consolidating the existing securities on a 1 for 10 basis. The Record Date for determining the consolidation of capital will be 6 Business Days after the date of the General Meeting at which the Resolution is passed. Any fractional entitlements as a result of holdings not being evenly divisible by 5 will be rounded up to the nearest whole number.

Section 254H of the Corporations Act enables a company to convert all or any of its shares into a smaller number of shares by a resolution passed at a general meeting. The conversion proposed by Resolution 1 is permitted under section 254H of the Corporations Act. Please also refer to Section 5.4 for further information in this regard.

The consolidation will not result in any change to the substantive rights and obligations of Existing Shareholders. The purpose of the consolidation of the existing issued capital of the Company is to reduce the number of existing securities on issue. For example, a Shareholder currently holding 1000 Shares will, as a result of the consolidation, hold 100 Shares.

The Company's balance sheet and tax position will remain unaltered as a result of the consolidation. However, the Company's issued capital as a result of the consolidation on a 1 for 10 basis will be as follows:

Shares on Issue – Pre-consolidation	201,172,902
Shares on Issue Post Consolidation	20,117,290

3.4 Resolution 2 - Issue of Proponent Shares to Tittel or its Nominees

Resolution 2 is an ordinary resolution and provides for the issue of 133,333,334 Proponent Shares at an issue price of \$0.003 each per Share to raise \$400,000 for payment of the Deed Administrators' costs and Creditors Claims. The shares are to be issued to Tittel and/or its nominees and related parties. Trident Capital and associated parties will be a nominee of Tittel for such proportion of the Proponent Shares as may be agreed with Tittel.

The issue of the Proponent Shares under this resolution is to be approved by Existing Shareholders under the requirements of Listing Rules 7.1 in relation to the issue of 133,333,334 Proponent Shares to Tittel and/or their nominees (as noted in Section 5.1 of the Explanatory Statement).

Approval is also being sought under the requirements of Listing Rule 10.11 and section 208(1) of the Corporations Act in relation to the issue of up to 108,000,000 Proponent Shares referred to in Resolution 2, to Related Parties (as noted in Sections 5.2 of the Explanatory Statement).

For the avoidance of doubt approval is not being sought under Item 7 of Section 611 of the Corporations Act as Tittel have confirmed to the Company that the issue of shares to itself and its nominees will not result in any one entity controlling greater than 20% of the Share Capital of the Company.

The Company will not issue Shares to any one person that would result in that person having voting power of greater than 20% in the Company.

At the time of the General Meeting, ASX trading in the shares of the Company will still be suspended and therefore there is no readily available market value for the Proponent Shares as at the date of this Explanatory Statement. Discussion as to the effect of the Recapitalisation Proposal on the Company and the Proponent Shares to be issued under Resolution 2 is provided in Section 4.5 of this Explanatory Statement.

All of the Proponent Shares referred to in Resolution 2 will, upon issue, rank equally in all respects with the Existing Shares.

A more detailed description of the Proponent Shares to be issued can be found in Sections 5.1 and 5.2 of this Explanatory Statement.

3.5 Resolution 3 – Prospectus Issue

Resolution 3 is an ordinary resolution and provides for the issue of up to 250,000,000 New Shares in the Company at a price of not less than 1 cent each through a Prospectus Issue to raise not less than \$2,500,000.

The issue of New Shares under Resolution 3 is to be approved by Existing Shareholders under the requirements of Listing Rule 7.1 as noted in Section 5.1 of this Explanatory Statement.

The Prospectus Issue is subject to Shareholders passing Resolution 3, compliance with ASX and Corporations Act regulatory requirements and market factors at that point in time. The funds raised will be used to satisfy all costs associated with the implementation of the Recapitalisation Proposal and otherwise will be applied towards the Company's ongoing business and to identify the acquisition and development of opportunities and other investments and to implement the Company's operational and expenditure plans outlined in Section 2.5.

For the avoidance of doubt approval is not being sought under Item 7 of Section 611 of the Corporations Act as it is not anticipated that any one entity will control greater than 20% of the Share Capital of the Company.

The Company will not issue Shares to any one person that would result in that person having voting power of greater than 20% in the Company.

The Prospectus is expected to be issued on or about 16 December 2010 and it is intended that (subject to Shareholders approving this Resolution) the Prospectus is expected to close on 31 January 2011. The issue of New Shares pursuant to the

Prospectus Issue must occur no later than 3 months, or such later date as permitted by the Listing Rules, from the date of the General Meeting.

3.6 Resolution 4 – Shareholders’ Agreement

As set out in Section 2.1(f) of this Explanatory Statement, the DOCA provides for the execution of the Shareholders Agreement between the Company and Tittel. Resolution 4 seeks the ratification of this Shareholders Agreement.

The Shareholders’ Agreement dated on or about 7 May 2010 between the Company and Tittel governs the management and governance of NLSI. As set out in the Shareholders’ Agreement the principal business activity of NLSI will be:

- The commercialisation of DG 35 and its Pro-drug DG 17,
- The approval of DG 35 and its Pro-Drug DG 17 for use in China,
- Enhancing the value of the Chinese Joint Venture company, and
- Adding value to Cavid AB and the investment in it.

The Shareholders Agreement is in a common form and contains provisions considered standard in this type of agreement including board composition, financial management provisions, transfer and issue of shares and default provisions. A copy of the Shareholders’ Agreement is available from the Administrators on request.

Resolution 4 is proposed for the purpose of ratifying the Shareholders Agreement between Tittel and the Company dated on or about 7 May 2010.

3.7 Resolution 5 – Share Transfer

As set out in Section 2.2(d) of this Explanatory Statement, the DOCA provides for the establishment of NLSI into which the Company transferred all of its shareholdings in the Subsidiaries.

Resolution 5 is proposed for the purpose of ratifying the transfer of one half of the shares in NLSI from the Company to Tittel, which occurred on June 24 2010.

3.8 Resolution 6 – Conditional Share Transfer

As set out in Section 2.1(c) and 2.8 of this Explanatory Statement, pursuant to the terms of the DOCA, Tittel advanced the Loan Funds to the Company. It is the intention of the Directors that the Loan Funds will be repaid by the Company to Tittel on completion of the Recapitalisation Proposal, termination of the DOCA and prior to reinstatement of the Company.

In accordance with clause 7(g) of the DOCA as agreed by Tittel, in the event that the Loan Funds are not repaid within 6 months following the date of the General Meeting, Tittel agrees to forgive the Loan (including any interest) in consideration for which the Company agrees to transfer its remaining interest in NLSI to Tittel or its nominee.

If the Resolutions are passed and the proposed recapitalisation is unable to be completed through the inability to raise funds through the Prospectus Issue contemplated within, then the Company will most likely not be able to repay the Loan

Funds to Tittel under which circumstances Tittel may chose to forgive the Loan and seek transfer of the Company's remaining interest in NLSI to Tittel, thereby resulting in the Company losing its remaining 50% interest in its major asset.

Resolution 6 is proposed for the purpose of approving the transfer of one half of the shares in NLSI from the Company to Tittel in accordance with clause 7(g) of the DOCA, in the event the Loan Funds are not repaid by the Company to Tittel within 6 months from the date of the General Meeting.

3.9 Resolution 7 – Issue of New Shares to Tittel or its Nominees

Resolution 7 is an ordinary resolution and provides for the issue of 26,666,666 New Shares at an issue price of not less than \$0.003 each per New Share to raise not less than \$80,000. The New Shares are to be issued to Tittel and/or its nominees.

As set out in Section 3.4 of this Explanatory Statement the DOCA provided that \$400,000 would be raised from the issue of 133,333,334 New Shares to Tittel or its nominees at \$0.003 per New Share. This amount was required to conclude the payment to the Deed Administrators and the Creditors.

It is proposed that an additional amount of \$80,000 also be raised to assist with the payment of third party costs relating to the implementation of the Recapitalisation Proposal. The funds resulting from the issue of these New Shares will be held on trust for the Company by Trident to be utilised in the costs of the reconstruction work.

All of the New Shares referred to in Resolution 7 will, upon issue, rank equally in all respects with the Existing Shares including the Capital Consolidation.

For the avoidance of doubt approval is not being sought under Item 7 of Section 611 of the Corporations Act as it is not anticipated that any one entity will control greater than 20% of the Share Capital of the Company.

The Company will not issue Shares to any one person that would result in that person having voting power of greater than 20% in the Company.

A more detailed description of the issue of the New Shares pursuant to Resolution 7 can be found in Sections 5.1(c) of this Explanatory Statement.

3.10 Resolution 8 – Change of Company Name

Resolution 8 is a special resolution which seeks approval for the Company to change its name. Shareholder approval is required for Resolution 8 under section 157 of the Corporations Act by special resolution. The Company will make an application to the ASIC for the change of name to "Narhex Limited". The new name will take effect upon a new certificate of registration being issued.

4 OTHER INFORMATION

4.1 Scope of Disclosure

The related party provisions of the Corporations Act require that this Explanatory Statement sets out all other information that is reasonably required by Existing

Shareholders in order to decide whether or not it is in the Company's interests to pass the Resolutions and which is known to the Company.

The Company is not aware of any relevant information that is material to the decision on how to vote on the Resolutions other than as is disclosed in this Explanatory Statement or previously disclosed to Existing Shareholders by the Deed Administrators or by the Company by notification to the ASX.

4.2 Voting Intentions and Interests of the Directors

The Directors of the Company are Messrs Peter Nash, David Mandel, Ian Reynolds and Tony Say.

At the date of this Explanatory Statement, Messrs Peter Nash and David Mandel are all Existing Shareholders of the Company and intend to vote in favour of all Resolutions.

Mr. Ian Reynolds is also an Existing Shareholder of the Company and is also a Director of Tittel Pty Ltd. Mr. Reynolds intends to vote in favour of all resolutions other than Resolutions 2,4,5,6 and 7 from which he is excluded to vote.

At the date of this Explanatory Statement, Mr Tony Say does not hold any interest in the existing securities of the Company.

Except as otherwise disclosed in this Notice of Meeting and Explanatory Statement the Directors have no interest in the outcome of the Resolutions (other than Resolution 2) except as Existing Shareholders of the Company (excluding Mr Say). In this regard, the table below sets out the details of the shareholdings held (directly or indirectly) by the Directors and their Associates and the percentage ownership in the Existing Shares of the Company.

Name of Director	Number of Existing Shares Held	Percentage Interest in Voting Shares
Peter Nash	4,000,000	1.99%
David Mandel	1,500,000	0.74%
Ian Reynolds	170,000	0.08%
Tony Say	Nil	Nil

4.3 Recommendation by Directors

Messrs. Nash and Mandel, who are not excluded from voting on any resolutions, recommend that in the context of the Company's current circumstances and given the Creditors' approval of the Recapitalisation Proposal, the Existing Shareholders should accept the Recapitalisation Proposal and approve all Resolutions to be put to the General Meeting. However, Existing Shareholders must decide how to vote based on the matters set out in the Explanatory Statement.

Mr. Say recommends (except in respect of Resolution 2, in which he makes no recommendation due to a personal interest in the outcome of Resolution 2) that in the context of the Company's current circumstances and given the Creditors' approval of

the Recapitalisation Proposal, the Existing Shareholders should accept the Recapitalisation Proposal and approve all Resolutions to be put to the General Meeting. However, Existing Shareholders must decide how to vote based on the matters set out in the Explanatory Statement.

Mr. Reynolds recommends (except in respect of Resolution 2, 4, 5, 6 and 7 in which he makes no recommendation due to a personal interest in the outcome of those Resolutions) that in the context of the Company's current circumstances and given the Creditors' approval of the Recapitalisation Proposal, the Existing Shareholders should accept the Recapitalisation Proposal and approve all Resolutions to be put to the General Meeting. However, Existing Shareholders must decide how to vote based on the matters set out in the Explanatory Statement.

4.4 Taxation

The Recapitalisation Proposal may give rise to income tax implications for the Company.

Existing Shareholders are advised to seek their own taxation advice on the effect of the Resolutions on their personal position and none of the Company, the Directors, the Deed Administrators or any adviser to the Company accepts any responsibility for any individual Existing Shareholder's taxation consequences on any aspect of the Recapitalisation Proposal.

4.5 Effect of the Recapitalisation Proposal

For the purposes of this Explanatory Statement, the following information is provided for consideration by the Existing Shareholders.

The Company's shares were last traded on ASX in March 2008 and the Deed Administrators were appointed Administrators on 9 February 2010. Prior ASX share trading prices for the Company are not considered a reliable basis to assess the New Shares.

As noted previously, the Company is subject to a DOCA with no further resources to satisfy unsecured creditors. Due to the Company's current state of affairs, the lack of profit history and the immediate lack of a reliable future cash flow from remaining assets, maintainable earnings are not considered a reliable basis to assess the New Shares.

The Administrators of the Company estimate on a liquidation basis, there is a deficiency of funds and the creditors will not receive a return if the Recapitalisation Proposal does not proceed. Therefore, on a liquidation basis, the Existing Shareholders return from the Company is likely to be nil.

Accordingly, the current implicit value of the Existing Shares at the date of this Explanatory Statement would be nil cents.

Based on the proforma Statement of Financial Position disclosed in Section 2.8 of this Explanatory Statement (which assumes the completion of the Recapitalisation Proposal) the estimated net assets after the Recapitalisation Proposal would be equivalent to approximately \$0.005 per New Share.

The advantages of passing the Resolutions and subsequent completion of the Recapitalisation Proposal and termination of the DOCA include:

- (a) A net cash injection of approximately \$1,980,000 into the Company, together with negligible liabilities, compared with the current position whereby the Company is under a DOCA and is in a net liability position.
- (b) The net asset backing of a New Share could be expected to increase from nil cents to approximately \$0.005 following completion of the Recapitalisation Proposal.
- (c) The Company's ability to seek re-quotation of its Shares on ASX is enhanced. By obtaining reinstatement to trading of the Company's shares, the Existing Shareholders are offered liquidity to sell their post consolidation shareholdings on ASX.

The principal disadvantage to Existing Shareholders is that their existing shareholdings will be diluted following the Capital Consolidation on a 1:10 basis and further diluted through the issue of New Shares pursuant to Resolutions 2, 3 and 7. However, this must be balanced with the fact that their existing shareholdings currently have nil value and the fact that, should the Recapitalisation Proposal not proceed, it is possible that the Company will be placed into liquidation. Following completion of the Recapitalisation Proposal, their reduced shareholdings would have value based on the cash injection to the Company and the return to liquidity through re-quotation on the ASX.

4.6 Deed of Company Arrangement

On 16 April 2010, an adjourned meeting of the Company's creditors was held at which it was resolved that the Company execute a Deed of Company Arrangement (DOCA) with Tittel for the recapitalisation of the Company. The Company entered into the DOCA on 7 May 2010.

The principal terms and conditions of the DOCA are as follows:

- (a) Tittel and/or its nominees have agreed to participate in the recapitalisation of the Company;
- (b) The Company is to establish a new entity, NLSI, into which the Company is to transfer all of its shareholding in the Subsidiaries. The Company is to transfer 50% of the issued shares in NLSI to Tittel in consideration for the payment of funds to the Deed Administrators as set out below. NLSI is to have equal representation from both Tittel and the Company on its Board;
- (c) Tittel has agreed to pay, a total sum of \$650,000 to the Deed Administrators as follows:
 - (i) \$125,000 by way of a cash payment ('Cash Payment');
 - (ii) \$125,000 by way of Loan Funds; and
 - (iii) \$400,000 by subscribing for 133,333,334 New Shares at \$0.003 per New Share.
- (d) the Company is to convene a meeting of Shareholders to approve:

- (i) a consolidation of existing issued capital on a 1 for 10 basis (Resolution 1);
 - (ii) the allotment of the necessary Proponent Shares (Resolutions 2)
 - (iii) the allotment of the Prospectus Issue (Resolutions 3);
 - (iv) ratify the execution of the Shareholders' Agreement by the Company (Resolution 4);
 - (v) ratify the transfer by the Company of 50% of the issued shares in NLSI to Tittel or its nominee (Resolution 5); and
 - (vi) approve the transfer by the Company of its remaining 50% interest in NLSI to Tittel or its nominee in accordance with the terms of the DOCA (Resolution 6), in the event the Loan Funds are not repaid;
- (e) Following:
- (i) Payment by Tittel or its nominee of the Cash Payment and the Loan Sum to the Company;
 - (ii) Provision by the Company to Tittel of copies of the Company's financial records and the Company's current board meeting minute book;
 - (iii) Passing of the required Shareholder resolutions (Resolutions 1 to 6 inclusive);
 - (iv) Payment by Tittel or its nominee of the amount of \$400,000;
 - (v) Completion of all matters deemed necessary by the Administrators in relation to the DOCA and the administration of the Company generally; and
 - (vi) Application by the Administrators of all the proceeds available for the payment of Creditors whose claims are admitted in accordance with the DOCA,
- the DOCA will terminate, and all Creditors' Claims are released in full and extinguished.
- (f) if any of the conditions under the DOCA are not satisfied, then the DOCA could terminate and the Company would then proceed into liquidation;
 - (g) all costs incurred by the Administrators will be paid in accordance with the DOCA.

5 REGULATORY REQUIREMENTS

The General Meeting has been called to approve specific aspects of the Recapitalisation Proposal in accordance with the Listing Rules and the Corporations Act which are summarised below.

5.1 Listing Rule 7.1

Under Chapter 7 of the Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities without shareholder approval. The limitation is to 15% of a company's capital in any 12 month period.

Listing Rule 7.1 provides that a company must not, without shareholder approval, subject to certain exceptions, issue during any 12 month period any equity securities, or other securities with rights of conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

The total number of New Shares that may be issued under Resolutions 2, 3 and 7 is 410,000,000 New Shares.

As the proposed issue of New Shares under Resolutions 2, 3 and 7 will result in an issue of more than 15% of the Company's capital in a 12 month period, shareholder approval is required under Listing Rule 7.1 for the issue of New Shares under Resolutions 2, 3 and 7.

Following the approval of the issue of these New Shares referred to above, the Company will still have the capacity to issue 15% of its expanded share capital over the next 12 months as those New Shares once issued will be excluded from the calculation under Listing Rule 7.1.

All of these New Shares will, on issue, rank equally in all respects with the Existing Shares (post consolidation).

(a) Resolution 2 – Issue of Proponent Shares - Tittel or its nominee

Approval is being sought under Listing Rule 7.1 in relation to Resolution 2 for the issue of 133,333,334 New Shares to Tittel or its nominees at an issue price of \$0.003 per New Share, of which up to 108,000,000 New Shares may be issued to related parties under Resolution 2 as set out in Section 5.2.

The following information is provided to Shareholders for the purposes of Listing Rule 7.1.

- (i) The maximum number of New Shares to be issued to Tittel or its nominees (including New Shares to be issued to related parties) under Resolution 2 is 133,333,334 New Shares.
- (ii) The New Shares will be allotted and issued to Tittel or its nominees (excluding New Shares to be issued to related parties) under Resolution 2 within three months of the Meeting. The New Shares will be allotted on a single day within 3 months of the Meeting.
- (iii) The issue price for the New Shares under Resolution 2 is \$0.003 per New Share.
- (iv) The allottees of the 133,333,334 New Shares under Resolution 2 are Tittel or its nominees (excluding those New Shares to be issued to related parties as set out in Section 5.2) which are not Related Parties or Associates of the Company.

- (v) The New Shares to be issued under Resolution 2 are ordinary fully paid shares which on issue will rank equally with the Existing Shares in the Company (post-Consolidation).
- (vi) Up to \$400,000 will be raised by the issue of 133,333,334 New Shares to Tittel or its nominees (including New Shares to be issued to related parties) under Resolution 2 and the Company intends to use these funds as set out in Section 2.5.

(b) **Resolution 3 – Approval to issue securities under a prospectus**

Approval is being sought under Listing Rule 7.1 in relation to Resolution 3 which is the issue of up to 250,000,000 New Shares in the Company at a price not less than \$0.01 each, to raise not less than \$2,500,000 under the Prospectus to domestic investors through the Public Offer.

The determination of the allottees of the Public Offer under Resolution 3 is at the sole discretion of the Company however the allottees shall not be Related Parties of the Company. The New Shares will be issued either at once on the same date or progressively, but in any event will be issued no later than three (3) months after the date of the General Meeting.

The following information is provided to Shareholders for the purposes of Listing Rule 7.1.

- (i) The maximum number of New Shares to be issued under Resolution 3 is 250,000,000 New Shares.
- (ii) The New Shares will be allotted and issued under Resolution 3 within three months of the Meeting. Allotment will occur progressively as and when allottees are identified.
- (iii) There issue price payable for the New Shares under Resolution 3 is \$0.01 per New Share.
- (iv) The allottees under Resolution 3 are not yet identified but will be applicants under the Public Offer. None of the allottees will be Related Parties or Associates of the Company. Allotment will occur progressively as and when allottees are identified.
- (v) The New Shares to be issued under Resolution 3 are ordinary fully paid shares which on issue will rank equally with the Existing Shares in the Company (post-Consolidation).
- (vi) Up to \$2,500,000 will be raised by the issue of the New Shares under Resolution 3 and the Company intends to use these funds for the purposes as set out in Section 2.5.

(c) **Resolution 7 – Issue of Shares to Tittel or its nominee**

Approval is being sought under Listing Rule 7.1 in relation to Resolution 7 for the issue of 26,666,666 New Shares to Tittel or its nominees at an issue price of \$0.003 per New Share.

The following information is provided to Shareholders for the purposes of Listing Rule 7.1.

- (i) The maximum number of New Shares to be issued under Resolution 7 is 26,666,666 New Shares.
- (ii) The New Shares will be allotted and issued under Resolution 7 within three months of the Meeting. The New Shares will be allotted on a single day within 3 months of the Meeting.
- (iii) The issue price for the New Shares under Resolution 7 is \$0.003 per New Share.
- (iv) The allottees under Resolution 7 are Tittel or its nominees. Tittel is not a Related Party or Associate of the Company.
- (v) The New Shares to be issued under Resolution 7 are ordinary fully paid shares which on issue will rank equally with the Existing Shares in the Company (post-Consolidation).
- (vi) Up to \$80,000 will be raised by the issue of the New Shares under Resolution 7 and the Company intends to use these funds as set out in Section 2.5.

5.2 Listing Rule 10.11

Chapter 10 of the Listing Rules contains certain provisions in relation to transactions between a company and 'persons in a position of influence'. Listing Rule 10.11 provides that a company must not issue equity securities to a 'related party' without the approval of holders of ordinary securities by ordinary resolution. The term 'related party' is defined for these purposes to include a related party within the meaning of section 228 of the Corporations Act and a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained.

As set out in Section 3.4 of the Explanatory Statement, approval is also being sought under the requirements of Listing Rule 10.11 and section 208(1) of the Corporations Act in relation to the issue of up to 108,000,000 of the New Shares referred to in Resolution 2 to nominees of Tittel that are considered to be related parties of the Company. The related parties to whom the New Shares will be issued are Messrs Ian Reynolds and Tony Say, Directors of the Company, and Mr Stephen Reynolds. Mr Stephen Reynolds is the son of Mr Ian Reynolds and therefore a related party as defined under the Corporations Act.

Following approval of the issue of the Proponent Shares under Resolution 2, the Company will still have the capacity to issue 15% of its expanded share capital over the next 12 months as those New Shares once issued will be excluded from the calculation under Listing Rule 7.1.

(a) Resolution 2 – Issue of Proponent Shares to Related Parties

The issue of the New Shares to the related parties under Resolution 2 requires approval in accordance with Listing Rule 10.11.

For the purposes of Listing Rule 10.13, the following information is provided in relation to Resolution 2:

- (i) The related parties to whom New Shares will be issued are the Directors and Mr. Stephen Reynolds.
- (ii) The number of New Shares to be issued to related parties are as follows:

Related Party	New Shares
Peter Nash	Nil
David Mandel	Nil
Ian Reynolds	up to 36,000,000
Tony Say	up to 36,000,000
Stephen Reynolds	up to 36,000,000

- (iii) The New Shares to the related parties will be issued at a price of \$0.003 each.
- (iv) The New Shares shall be issued to the related parties no later than one (1) month from the date of the General Meeting.
- (v) The New Shares to be issued are ordinary fully paid shares which on issue will rank equally with the Existing Shares in the Company (post-Consolidation).
- (vi) Up to \$324,000 may be raised by the issue of up to 108,000,000 New Shares to related parties under Resolution 2 and the Company intends to use these funds as set out in Section 2.5.

Pursuant to Listing Rule 7.2, if Listing Rule 10.11 shareholder approval is being sought, approval under Listing Rule 7.1 is not required in relation to the New Shares to be issued to the related parties under Resolution 2.

5.3 Section 208 of the Corporations Act

Section 208(1)(a) of the Corporations Act prohibits the Company from giving a financial benefit (including an issue of shares and options) to a related party of the Company without approval of shareholders by a resolution passed at a general meeting at which no votes are cast in relation to the resolution in respect of any shares held by the related party or by an Associate of the related party.

The Directors and Stephen Reynolds are considered to be 'related parties' of the Company within the terms of section 208 of the Corporations Act. Accordingly, the Company is seeking the approval of Shareholders under section 208 of the Corporations Act in respect of the Shares being issued to the Directors and Stephen Reynolds.

It is necessary, pursuant to section 219 of the Corporations Act, to provide the following information that pertains to related parties in the Explanatory Statement:

- (a) The related parties to whom the proposed Resolutions would permit financial benefits to be given are the Directors and Stephen Reynolds (under Resolution 2). The issue of New Shares to these parties and their Associates is discussed in sections 3.4 and 5.2.
- (b) The financial benefits to be given is the difference between the value of a Share in the Company if the Recapitalisation Proposal is approved, being \$0.005, and that amount paid for the New Shares to be issued to Tittel or its nominees and the related parties, being \$0.003 as discussed in Sections 3.4 and 5.2. Therefore, the value of the financial benefits to be given is approximately \$0.002 per Share. Further commentary on the effect of the Recapitalisation Proposal on the Company and the issue of the New Shares is provided in Sections 4.6 of this Explanatory Statement.
- (c) The issue of the New Shares to the related parties under Resolution 2 will occur no later than one (1) month from the date of the General Meeting.
- (d) Appropriate voting exclusion statements are included in the Notice of Meeting.
- (e) Other than as set out in this Explanatory Statement, there is no further information which the Existing Shareholders would reasonably require in order to decide whether or not it is in the Company's interests to pass Resolution 2.
- (f) The Directors make no recommendation in respect of Resolution 2 due to their personal interest in the outcome of Resolution 2.

Additional information in relation to Resolution 2 is set out throughout this Explanatory Statement. Shareholders should therefore read the Notice of Meeting and the Explanatory Statement in its entirety before making a decision on how to vote on Resolution 2.

5.4 Section 254H of the Corporations Act

In Resolution 1, the Company proposes to consolidate its existing issued capital in the Company on a 1 for 10 basis in accordance with section 254H of the Corporations Act. Under section 254H of the Corporations Act, a company may convert all or any of its shares into a larger or smaller number of shares by resolution passed at a general meeting of the company.

5.5 ASIC and ASX's Role

Under section 218(1) of the Corporations Act, the Company must lodge with ASIC the Notice of Meeting and the Explanatory Statement at least 14 days before the notice convening a general meeting is given. Under section 218(2) of the Corporations Act, the Company has applied for a period of less than 14 days for the purposes of section 218(1) of the Corporations Act.

The fact that the accompanying Notice of Meeting, this Explanatory Statement and other relevant documentation has been received by ASX and ASIC is not to be taken as an indication of the merits of the Recapitalisation Proposal or the Company. ASIC, ASX and its respective officers take no responsibility for any decision an Existing Shareholder may make in reliance on any of that documentation.

6 DEFINITIONS

In this Explanatory Statement:

Administration Date means 9 February 2010, the date on which the Administrators were appointed, or taken to be appointed, as administrators of the Company pursuant to section 436A of the Corporations Act.

Administrators mean Messrs David Ross and Richard Albarran jointly and severally, in their capacity as deed administrators of the DOCA.

Admitted Creditor means any person with a Claim that has been accepted by the Administrators.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning set out in sections 11 to 17 of the Corporations Act.

ASX means ASX Limited (ACN 008 624 691) trading as the Australian Securities Exchange.

Board means the board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Capital Consolidation means the consolidation of the existing issued capital of the Company on the basis of 1:10 as proposed under Resolution 1 and detailed in Section 3.3 of the Explanatory Statement.

Claim(s) includes a claim, demand, debt payable by, or Claim against, the Company whether present or future, certain or contingent, ascertained or sounding only in damages, the circumstances giving rise to which occurred on or before 9 February 2010.

Company means Narhex Life Sciences Limited (Subject to Deed of Company Arrangement) (ACN 094 468 318).

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001.

Creditor(s) means a person who has a debt payable by, or Claim against, the Company whether present or future, certain or contingent, ascertained or sounding only in damages, the circumstances giving rise to which occurred on or before 9 February 2010.

Deed Administrators means the Administrators of the DOCA.

Directors means collectively Peter Nash, David Mandel, Ian Reynolds and Tony Say.

DOCA means the Deed of Company Arrangement executed on 7 May 2010 between the Deed Administrators and Tittel.

Existing Shares means the 201,172,902 issued fully paid ordinary shares in the Company before the Capital Consolidation.

Existing Shareholder means the holder of an Existing Share.

Explanatory Statement means the Explanatory Statement accompanying the Notice of Meeting.

General Meeting means the general meeting of the Existing Shareholders convened for the purposes of considering the Resolutions.

Listing Rules means the Listing Rules of the ASX.

Loan Funds means the sum of \$125,000 advanced by Tittel to the Company in accordance with the DOCA as referred to in the Explanatory Statement.

Loan means the advance of the Loan Funds to the Company by Tittel.

New Share(s) means a fully paid ordinary share in the Company after the Capital Consolidation.

Notice of Meeting means the notice convening the General Meeting accompanying this Explanatory Statement.

Official List means the official list of the ASX.

Proponent Shares means New Shares to be at an issue price of \$0.003 pursuant to Resolution 2.

Prospectus means the prospectus to be issued by the Company and referred to in Resolution 3.

Prospectus Issue means the issue of up to 250,000,000 New Shares in the Company at a price of not less than 1 cent each to raise not less than \$2,500,000.

Recapitalisation Proposal means the proposal for the recapitalisation of the Company as described in Section 2 of this Explanatory Statement.

Record Date means the date the share registry will determine the amount of Existing Shares to be consolidated pursuant to the Capital Consolidation.

Related Party means a party so defined by section 228 of the Corporations Act.

Resolution means a resolution to be considered at the General Meeting as contained in the Notice of Meeting.

Section means a section of this Explanatory Statement.

Share means a fully paid ordinary share in the Company and includes any New Share.

Shareholder means a shareholder of the Company.

Shareholders' Agreement means the agreement dated on or about 7 May 2010 between the Company and Tittel as referred to in Section 3.6 of the Explanatory Statement.

Subsidiaries means:

- (a) Narhex Limited, a Hong Kong corporation;
- (b) Xian Hex Life Sciences Company Limited, a Chinese corporation; and
- (c) Cavid AB, a Swedish corporation;

Tittel means Tittel Pty Ltd (ACN 005 114 269).

Trident means Trident Capital Pty Ltd (ACN 100 561 733).

NARHEX LIFE SCIENCES LIMITED
(Subject to Deed of Company Arrangement)
ACN 094 468 318
PROXY FORM

Shareholder Details

Name:

Address:

Contact Telephone No:

Contact Name (if different from above):

Appointment of Proxy

I/We being a shareholder/s of Narhex Life Sciences Limited and entitled to attend and vote hereby appoint the following proxy/proxies to attend and act on my/our behalf and to vote in accordance with my/our following directions at the General Meeting of Narhex Life Sciences Limited to be held at Level 2, 90 William Street, Melbourne, Victoria at 10am (EST) on 5 November 2010 and at any adjournment of that meeting.

☐

The Chairman
of the meeting

(mark with an 'X')

OR

IMPORTANT:

If the Chairman of the meeting is your proxy, or if appointed your proxy by default and you do **not** wish to direct him/her how to vote on any of these resolutions, you must mark this box with an "X". By marking this box, you acknowledge that the Chairman of the meeting may exercise your proxy on those resolutions (for which you have not given a direction) even if he/she has an interest in the outcome of the resolution and that votes cast by him/her, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote on any of these resolutions, the Chairman of the meeting will not cast your votes on the resolutions (for which you have not given a direction) on a show of hands or on a poll. The Chairman of the meeting intends to vote undirected proxies in favour of each resolution.

If the person you are appointing as your proxy is someone other than the Chairman of the meeting:
Write the name of that person in the box below.

 %

You must specify the % of your votes that you authorise your proxy to exercise if:

If you hold 2 or more Shares in Narhex Life Sciences Limited you may appoint a second proxy:

Write the name of your second proxy in the box below.

 %

- (a) you have only appointed 1 proxy and do not want him/her to exercise all of your votes; or
(b) if you have appointed 2 proxies under this proxy form.

If you do not name a proxy or your named proxy fails to attend the meeting, the Chairman of the meeting will be appointed as your proxy to attend and act on your behalf and to vote in accordance with the following directions at the General Meeting of the Company to be held at Level 2, 90 William Street, Melbourne, Victoria at 10am (EST) on 5 November 2010 and at any adjournment of that meeting.

Voting directions to your proxy - Please mark only one of the boxes with an "X" for each resolution to indicate your directions.

Special Business

		For	Against	Abstain
Resolution 1:	Consolidation of Capital	☐	☐	☐
Resolution 2:	Issue of Proponent Shares to Tittel and/or Nominees	☐	☐	☐
Resolution 3:	Prospectus Issue	☐	☐	☐
Resolution 4:	Ratification of Shareholders Agreement	☐	☐	☐
Resolution 5:	Ratification of Share Transfer	☐	☐	☐
Resolution 6:	Conditional Share Transfer	☐	☐	☐
Resolution 7:	Issue to Tittel and/or Nominee	☐	☐	☐
Resolution 8:	Change of Company Name	☐	☐	☐

If you mark the "Abstain" box with an "x" for a particular resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll.

PLEASE SIGN HERE
implemented

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

Individual or Shareholder 1

**Sole Director and
Sole Company Secretary**

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

How to complete this Proxy Form

1 Your Name and Address

Please print your name and address as it appears on your holding statement and the Company's share register. If Shares are jointly held, please ensure the name and address of each joint shareholder is indicated. Shareholders should advise the Company of any changes. Shareholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the Company.

3 Votes on Resolutions

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each Resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any Resolution by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given Resolution, your proxy may vote as he or she chooses. If you mark more than one box on a Resolution your vote on that Resolution will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy please write the name of that person.

To appoint a second proxy you must state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant proxy. If the Proxy Form does not specify a percentage, each proxy may exercise half your votes. Fractions of votes will be disregarded.

5 Signing Instructions

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

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

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

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

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

If a representative of the corporation is to attend the meeting a "Certificate of Appointment of Corporate Representative" should be produced prior to admission.

6 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address given below not later than 48 hours before the commencement of the meeting, i.e. no later than 10am (WST) on 3 November 2010. Any Proxy Form received after that time will not be valid for the scheduled meeting.

This Proxy Form (and any Power of Attorney and/or second Proxy Form) may be sent or delivered to KR Corporate Compliance Pty Ltd, Level 2, 90 William St Melbourne, Victoria. 3000 or sent by facsimile to 03 9605 5928.