Narhex Life Sciences Limited

ABN 51 094 468 318

Financial Report
for the half year ended 31 December 2008

CONTENTS TO FINANCIAL REPORT

CORPORATE INFORMATION

These financial statements cover both Narhex Life Sciences Limited as an individual entity (the "Company") and the consolidated entity (the "Group") comprising Narhex Life Sciences Limited and its subsidiaries. Unless otherwise stated, all amounts are presented in $AUD.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 4 to 6. The directors' report is not part of the financial statements.

Directors

Mr Peter Nash (Executive Director) *(appointed 27 January 2010)*

Dr Michael Cohen (Chairman, Executive Director) *(deceased 19 November 2009)*

Mr David Mandel (Chairman and Director) appointed Chairman on 19 November 2009, *resigned on 28 January 2010 and reappointed as Director on 17 May 2010)*

Mr Ian Reynolds (Director) *(appointed 9 June 2010; resigned 13 January 2011)*

Mr Anthony Say (Director) *(appointed 17 May 2010; resigned 13 January 2011)*

Mr. Peter Christie *(appointed as Chairman on 13 January 2011)*

Mr. Simon Lill *(appointed 13 January 2011)*

Joint Company Secretary

Ms. Nicki Farley;

Mr. Mourice Garbutt

Registered and Principal Office

Level 24

44 St Georges Terrace

PERTH, WA. 6000

Auditors

Nexia ASR

Level 14, 440 Collins Street,

MELBOURNE VIC 3000

Share Registry & Register

Link Market Services Ltd

Level 1, 333 Collins Street

MELBOURNE VIC 3000

Solicitors

Price Sierakowski

Level 24, 44 St Georges Terrace

PERTH, WA. 6000.

Bankers

National Australia Bank

100 St Georges Terrace

PERTH, WA. 6000.

Stock Exchange Listing

Narhex Life Sciences Limited is listed on

the Australian Securities Exchange.

ASX Code : NLS

Contact Information

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Web Site: www.narhexlifesciences.com

Directors' Report

The directors of Narhex Life Sciences Limited submit herewith the interim financial statements of the consolidated group (the "Group") and the company (the "Company") for the half year ended 31 December 2008. In order to comply with the provision of the Corporations Act 2001, the directors report as follows:

These Financial Statements cover the period from 1 July 2008 to 31 December 2008. On 9 February 2010, the Company appointed Richard Albarran and David Ross of Hall Chadwick Chartered Accountants, Level 14, 45 William Street, Melbourne as joint and several Administrators of the Company. The Administrator's entered into a Deed of Company Arrangement (DOCA), on behalf of the Company which had the effect of extinguishing the current debts and facilitating the Company being recapitalized and reinstated to quotation on the Australian Securities Exchange (ASX). The DOCA has since been effectuated and the Company passed back to the control of its Directors. These Financial Statements report results and a financial position that is not representative of the position of the Company following completion of the recapitalisation and should not be used as the basis for any decision about the Company or its prospects.

Directors and executive details

The following persons acted as directors of the company during or since the end of the half year:

Mr Peter Nash (, Executive Director) *(appointed 27 January 2010)*

Dr Michael Cohen (Chairman, Executive Director) *(deceased 19 November 2009)*

Mr David Mandel (Chairman and Director) appointed Chairman on 19 November 2009, *resigned on 28 January 2010 and reappointed as Director on 17 May 2010)*

Mr Ian Reynolds (Director) *(appointed 9 June 2010; resigned 13 January 2011)*

Mr Anthony Say (Director) *(appointed 17 May 2010; resigned 13 January 2011)*

Mr. Peter Christie *(appointed as Chairman on 13 January 2011)*

Mr. Simon Lill *(appointed 13 January 2011)*

All executive functions have been carried out Dr Michael Cohen, Mr Peter Nash and Mr. David Mandel.

Principal activities

The principal activities of the consolidated entity during the period was the development, manufacturing and marketing of HIV related diagnostics and therapeutic products and the development of the company's Intellectual Property.

Operating results

The loss after tax of the consolidated entity for the half year ended 31 December 2008 was $1,187,852 (2008: Loss $3,037,067).

Review of Operations and Subsequent Events

Narhex Life Sciences Limited ("Narhex") was admitted to the Official List of the ASX on January 2005. The principal activity of the Company was the research and commercial development of drugs for the treatment and management of HIV/AIDS.

During the half year the company continued to struggle to administer its operations both in Australia and China. Consequently the compliance burden of the company increased significantly compared to the prior year, despite a significant reduction in its research and development activity in China. The process of obtaining the necessary applications and approvals in relation to its Chinese operators for the manufacture of its DG 17 anti-HIV protease inhibitor were postponed indefinitely. Operations in the Company's subsidiaries in Hong Kong and Sweden have also stalled and no results from either subsidiary are reflected in the current year's financial performance.

Directors' Report

The Chairman of the Company, Dr Cohen, sadly passed away in November 2009, such that the company lost both its driving force and a source of funding.

On 9 February 2010, the Directors of the Company appointed Mr Richard Albarran and Mr David Ross of Hall Chadwick Chartered Accountants, Level 14, 45 William Street, Melbourne 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 matters, 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. Tittel Pty Ltd is controlled by a former Director of the Company, being Mr Ian Reynolds. The Administrator's on behalf of the Company entered into the DOCA with Tittel at a time when Mr. Reynolds was not a Director of the Company. Mr Reynolds became a Direcotr of the Company as a condition of the DOCA. Mr. Reynolds is no longer a Director of the Company.

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

- The Company established Narhex Life Sciences International Pty Ltd ("NLSI") as a wholly owned subsidiary of the Company;
- The Company transferred all its shares in the following companies to NLSI:
    - Narhex Limited, a Hong Kong corporation;
    - Xian Hex Life Sciences Company Limited, a Chinese corporation; and
    - Cavidi AB, a Swedish corporation.
- Tittel paid the sum of $125,000 to the Administrators and advanced the sum of $125,000 to the Company through the Administrator;
- The Company transferred on half of its shares in NLSI to Tittel's nominee, Narhjex Life Sciences Development Limited;
- The Administrators appointed Mr Ian Reynolds and Mr Tony Say as directors of the Company, and reappointed David Mandel in addition to Peter Nash;
- The Company entered into a Shareholders' Agreement substantially in the form annexed to the DOCA, which sets out the governance and management of NLSI;
- At a meeting on 5 November 2010 the following resolutions were carried by the members of the company:
    - A consolidation of the ordinary share capital of the company on a 1 for 10 basis, effective on 15 November 2010;
    - An issue of 133,333,000 Proponent Shares at an issue price of $0.003(0.3 cents) per share to raise $400,000 for payment of the Deed Administrators' costs and Creditors Claims. The shares were issued to Tittel and its nominees, with Trident Capital to be a nominee of Tittel for such proportion of the Proponent shares as separately agreed with Tittel. All Proponent Shares are to be ranked equally with all other existing shares;
    - An issue of 250,000,000 new shares for an issue price of not less than $2,500,000 through a Prospectus. The funds raised will be used to satisfy all costs associated with the implementation of the Recapitalisation Proposal and also 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 (as set out in the prospectus;
    - The Shareholder's Agreement dated 7 May 2010 determining the ownership, governance and management of NLSI was ratified;,;
    - The transfer of 50% of shares in relation to the ownership of NLSI to Tittel's nominee Narhex Life Sciences Development Limited ("NLSD") was also ratified;
    - Approval was given that in the event that the loan funds from Tittel 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 the Company transferring its remaining interest in NLSI to Tittel or its nominee; and
    - An issue of 26,666,666 new shares at an issue price of $0.003(0.3 cents) per share to Tittel or its nominees for no less than $80,000 in relation to third party costs for the Recapitalisation Proposal. The funds from the issue of these new shares will be held in trust for the Company by Trident to be utilised in the costs of the reconstruction work.
    - A resolution was also to be put to the members to change the company name to Narhex Limited. This resolution was not going to be supported and hence was withdrawn.
- The Company raised $480,000 through the issue of 160 million shares at $0.003 and paid $400,000 to the Administrator in accordance with the DOCA;
- On 14 January 2011 the Company successfully effectuated its Deed of Company Arrangement ("DOCA"), which resulted in the forgiveness of Creditors Claims subject to the DOCA;
- The Company has successfully raised $2,500,000 through the issue of 250 million shares at one cent per share.

Future developments

The Company is now seeking reinstatement on the ASX.

On reinstatement to the ASX it is proposed to utilise the funds raised under the capital raising (after all costs associated with the capital raising) towards the following:

- Review, evaluation and development of the Company's existing businesses;
- Continue its investment interest in NLSI which will result in the ongoing development of DG17 including clinical trials and reporting; and
- Identification and consideration of other business opportunities.

Dividends

No dividend has been proposed or paid.

Auditor's independence declaration

The auditor's independence declaration is included on page 12 of the annual report.

Signed in accordance with a resolution of the directors

Mr Peter Christie
Chairman

Perth
9 March 2011

AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF NARHEX LIFE SCIENCES LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2008 there have been:

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

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

NEXIA ASR
ABN 16 847 721 257

GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne, Vic.

9 March 2011

Income Statement
for the half year ended 31 December 2008

	Note	2008 $	2007 $
Other revenue		1,666	13,096
Administration expenses		(605,199)	(445,974)
Business development – China operation		-	(108,734)
Finance costs		(3,464)	-
Impairment charges	4	(398,204)	(1,340,405)
Research and development expenses		(182,651)	(282,990)
Share of loss of associate accounted for using the equity method		-	(76,492)
Loss before income tax		(1,187,852)	(2,241,499)
Income tax benefit		-	192,764
Net loss for the half year from continuing operations		(1,187,852)	(2,048,735)
Discontinued Operation			
Loss from discontinued operation after tax		-	(988,332)
Loss for the year		(1,187,852)	(3,037,067)
Loss attributable to:			
Equity holders of the parent		(1,034,703)	(3,028,156)
Minority interest		(153,149)	(8,911)
		(1,187,852)	(3,037,067)
From continuing and discontinued operation Earnings per share (basic and diluted) (cents)		(0.6)	(1.5)
From continuing operations Earnings per share (basic and diluted) (cents)		(0.6)	(1.1)

Balance sheet
as at 31 December 2008

	31 December 2008 $	31 June 2008 $
CURRENT ASSETS		
Cash and cash equivalents	266,492	325,619
Trade and other receivables	2,786	39,921
Total Current Assets	269,278	365,540
NON-CURRENT ASSETS		
Property, plant and equipment	784,799	794,505
Total Non-Curent Assets	784,799	794,505
Total Assets	1,054,077	1,160,045
CURRENT LIABILITIES		
Trade and other payables	1,246,125	508,147
Financial liabilities	124,964	-
Total Current Liabilities	1,371,089	508,147
Total Liabilities	1,371,089	508,147
Net (Deficiency)/Assets	(317,012)	651,898
EQUITY		
Issued capital	13,174,933	13,174,933
Reserves	188,175	32,228
Accumulated losses	(13,742,836)	(12,708,133)
Net (deficiency)/assets attributable to equity holders of the parent	(379,728)	499,028
Minority interest	62,716	152,870
Total Deficiency	(317,012)	651,898

The accompanying notes form an integral part of this Balance Sheet

Statement of changes in equity
for the half year ended 31 December 2008

	Fully paid ordinary shares $	Reserves $	Accumulated losses $	Attributable to equity holders of the parent $	Minority interest $	Total $
Balance at 1 July 2007	**13,174,933**	**45,733**	**(9,116,376)**	**4,104,290**	**222,966**	**4,327,256**
Exchange differences arising on translation of foreign operation	-	(10,725)	-	(10,725)	(852)	(11,577)
Loss for the period	-	-	(3,028,156)	(3,028,156)	(8,911)	(3,037,067)
Total recognised income and expense	-	**(10,725)**	**(3,028,156)**	**(3,038,881)**	**(9,763)**	**(3,048,644)**
Balance at 31 December 2007	**13,174,933**	**35,008**	**(12,144,532)**	**1,065,409**	**213,203**	**1,278,612**
Balance at 1 July 2008	**13,174,933**	**32,228**	**(12,708,133)**	**499,028**	**152,870**	**651,898**
Exchange differences arising on translation of foreign operation	-	155,947	-	155,947	34,851	190,798
Loss for the period	-	-	(1,034,703)	(1,034,703)	(153,149)	(1,187,852)
Total recognised income and expense	**-**	**155,947**	**(1,034,703)**	**(878,756)**	**(118,298)**	**(997,054)**
Change in minority interest holding	-	-	-	-	28,144	28,144
Balance at 31 December 2008	**13,174,933**	**188,175**	**(13,742,836)**	**(379,728)**	**62,716**	**(317,012)**

The accompanying notes form an integral part of this Statement of changes in equity.

Statement of cash flows
for the half year ended 31 December 2008

	Note	2008 $	2007 $
Cash flows from operating activities			
Cash receipts from customers		-	304,952
Cash payments in the course of operations		(72,793)	(1,933,229)
Interest received		1,666	13,096
Tax refund		-	234,986
Net cash flows used in operating activities		(71,127)	(1,380,195)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		-	528
Payments for intangible assets		-	(811,297)
Purchases of property, plant and equipment		(86,141)	(4,655)
Net cash flows used in investing activities		(86,141)	(815,424)
Cash flows from financing activities			
Capital contribution by minority shareholder		-	109,354
Proceeds from convertible note		121,500	-
Net cash flows provided by financing activities		121,500	109,354
Net decrease in cash and cash equivalents		(35,768)	(2,086,265)
Cash and cash equivalents at the beginning of the half year		325,619	2,376,058
Adjustment on deconsolidation of subsidiary		-	214,179
Effects of exchange rate changes on the balance of cash held in foreign currencies		(23,359)	(4,155)
Cash and cash equivalents at the end of the half year		**266,492**	**499,817**

The accompanying notes form an integral part of this Statement of cash flows.

Notes to the financial statements

NOTE 1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of Compliance

These half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Narhex Life Sciences Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2008 financial report. The half-year report does not include full disclosures of the type normally included in an annual financial report.

Limitations on preparation

On 9 February 2010, Mr Richard Albarran and Mr David Ross (the "administrators") were appointed as joint and several administrators of the Company pursuant to Part 5.3A of the Corporations Act. The administrator's appointment was to Narhex Life Sciences Limited only and did not extend to subsidiary companies. In addition, the operating subsidiary companies are incorporated in China, Hong Kong and Sweden and not subject to Australian Corporations Law, including the administrator's appointment. In preparing these accounts, the Company has not had access to the financial records of the subsidiaries for the period since the end of the month prior to entering administration.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2008.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current half year.

Notes to the financial statements

NOTE 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominantly by the differences in the location of the Group's assets. The Group operates in one business segment that being the development, manufacturing and marketing of health related diagnostics.

Geographical Segments
Although the consolidated entity's divisions are managed on a global basis they operate in three main geographical areas:

Australasia
Comprises the following two entities:

Narhex Life Sciences Limited, the parent entity which operates within Australia; and
Narhex Limited, an entity registered in Hong Kong that holds the intellectual property of the parent entity.

China
This is where Xi'an-Hex Life Science Co. Limited is incorporated and operates.

Sweden
This is where Cavidi AB is incorporated and operates from. The parent entity's shareholding was diluted from 44.1% in November 2007.

The following tables present revenue, expenditure and certain asset information regarding geographic segments for the half years ended 31 December 2008 and 31 December 2007:

	Australasia		China		Total Continuing Operations		Sweden (Discontinued Operations)		Eliminations		Total	
	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $
Revenue												
Sales to external customers		-	-	-		-	-	259,339	-	-	-	259,339
Inter-segment revenues		-	-	-		-	-	-	-	-	-	-
Total segment revenue		**-**	**-**	**-**		-	**-**	**259,339**	**-**	**-**	**-**	**259,339**
Non-segment revenues												
Interest revenue	542	13,096	1,124	-	1,666	13,096	-	-	-	-	1,666	13,096
Total consolidated revenue	**542**	**13,096**	1,124	-	**1,666**	**13,096**	**-**	**259,339**	**-**	**-**	**1,666**	**272,435**

Notes to the financial statements

NOTE 3 BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

	Australasia		China		Total Continuing Operations		Sweden (Discontinued Operations)		Eliminations		Total	
	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $
Result												
Segment result	(669,196)	(1,644,506)	(520,322)	(596,993)	(1,189,518)	(2,241,499)	-	(988,332)	-	-	(1,189,518)	(3,229,831)
Unallocated revenue less unallocated expenses	542	192,764	1,124	-	1,666	192,764	-	-	-	-	1,666	192,764
Loss from continuing operations after income tax expense	(668,654)	(1,451,742)	(519,198)	(596,993)	(1,187,852)	(2,048,735)	-	(988,332)	-	-	(1,187,852)	(3,037,067)
Assets												
Segment assets	311,498	1,596,083	1,046,400	1,342,256	1,357,898	2,938,339	-	-	(303,821)	(1,778,294)	896,629	1,160,045
Liabilities												
Segment liabilities	690,651	310,629	680,438	197,519	1,371,089	508,148	-	-	-	-	1,371,089	508,148

Notes to the financial statements

NOTE 3 BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

	Australasia		China		Total Continuing Operations		Sweden (Discontinued operations)		Eliminations		Total	
	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $
Other segment information												
Acquisition of property, plant & equipment, intangibles and other non-current segment assets	-	-	86,141	649,023	86,141	649,023	-	161,746	-	-	86,141	810,769
Amortisation	-	-	-	66,409	-	66,409	-	39,806	-	-	-	106,215
Amortisation and depreciation	4,864	3,859	9,757	58,951	14,621	62,810	-	-	-	-	14,621	62,810

Notes to the Financial Statements

	2008 $	2007 $
NOTE 4 LOSS FOR THE YEAR		
Profit for the year includes the following expenses:		
Employee benefits costs	81,750	987,346
Impairment charges		
Intangible assets	-	880,934
Investment in associate	-	459,471
Property, plant and equipment*	398,204	-
	398,204	1,340,405

*As at 31 December 2007 the directors evaluated the Company's investment in its Xi'an-Hex Life Sciences Co., Ltd subsidiary and chose to impair the investment down by $787,066 to $303,821 in the parent entity accounts. In evaluating the investment, the directors assessed the recoverable value of the investment on a selling value less costs basis, which they assessed to be greater in value than its value in use. In determining the value of the investment, the Directors considered a range of possible values based upon likely sales prices for the investment from a range of bid prices from third party interests, which ranged from between $200,000 to $400,000 after costs.

Subsequent to this date, on 7 May 2010 50% of the subsidiary was sold to a third party for total consideration of $125,000, with an implied value over the entire investment of $250,000.

In the consolidated financial statements, the net assets of the subsidiary company were written down to the parent entity investment of $303,821. To reflect this, an impairment charge of $341,162 was taken against the non-monetary assets of the subsidiary, being its property, plant and equipment. Consistent with the prior year's impairment charge, and consistent with the directors' determination of the $nil value in use of the asset, the Directors applied the impairment charge firstly to the subsidiary's plant and equipment, thereby impairing the plant and equipment to a $nil value and thereafter to the Leasehold Land.

	2008 $	2007 $
NOTE 5 LOSS PER SHARE		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Net loss for the half year attributable to ordinary equity holders (used in calculating diluted EPS) – continuing and discontinuing operations:	(1,034,703)	(3,028,156)
Net loss for the half year attributable to ordinary equity holders (used in calculating diluted EPS) – continuing operations:	(1,034,703)	(2,039,824)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	196,672,902	196,672,902

Share options on issue at year end are considered to be anti-dilutive potential ordinary shares and therefore the diluted earnings per share is the same as the basic earnings per share.

NOTE 6 CONTINGENT LIABILITIES

As stated in the *Subsequent events* note below, the company entered into in administration on 9 February 2010. Although the process of identifying and paying out obligations as a result of the administration process is complete, it may be possible that further obligations previously not identified may exist in respect of the company's trading activities to balance date.

NOTE 7 SUBSEQUENT EVENTS

On 19 November 2009 Dr. Michael Cohen, who at the time was Executive Chairman of the company, sadly passed away. This role was subsequently assumed by Mr. Peter Nash.

In December 2009 the company failed to finance a cash call to the Xi'an Hex investment in China. The inability to finance the venture meant that the company was in danger of losing title to the assets and liabilities in the venture.

On 9 February 2010, following a default on its obligations to its creditors, the Company was placed into administration by the Directors. Hall Chadwick were appointed administrators and the Company has remained in administration up until January 2011 when the DOCA was effectuated. Upon entering administration, all contracts with its suppliers and employees were terminated. In administration, the company has restructured its overseas operations – all of its assets were placed into Narhex Life Sciences International Limited, following which for a consideration of $125,000 the company sold 50% of its interest in that Company as part of the restructuring and recapitalisation of the Company as evidenced by the DOCA. Consideration was received from the Tittel group who placed their interest in Narhex Life Sciences Development Pty Ltd. In addition, Tittel loaned the company a further $125,000 so that the company could pay a deposit as agreed between the Administrator and Tittel and as evidenced by the DOCA executed at that time. This is set out in more detail below.

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 matters, 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.

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

- The Company established Narhex Life Sciences International Pty Ltd ("NLSI") as a wholly owned subsidiary of the Company;
- The Company transferred all its shares in the following companies to NLSI:
    - Narhex Limited, a Hong Kong corporation;
    - Xian Hex Life Sciences Company Limited, a Chinese corporation; and
    - Cavidi AB, a Swedish corporation.
- Tittel paid the sum of $125,000 to the Administrators and advanced the sum of $125,000 to the Company;
- The Company transferred on half of its shares in NLSI to Tittel's nominee, Narhex Life Sciences Development Pty Ltd;
- The Administrators appointed Mr Ian Reynolds and Mr Tony Say as directors of the Company, and reappointed David Mandel in addition to Peter Nash; and
- The Company entered into a Shareholders' Agreement substantially in the form annexed to the DOCA, which sets out the governance and management of NLSI.

NOTE 7 SUBSEQUENT EVENTS (CONTINUED)

- At a meeting on 5 November 2010 the following resolutions were carried by the members of the company:
    - A consolidation of the ordinary share capital of the company on a 1 for 10 basis, effective on 15 November 2010;
    - An issue of 133,333,000 Proponent Shares at an issue price of $0.003(0.3 cents) per share to raise $400,000 for payment of the Deed Administrators' costs and Creditors Claims. The shares were issued to Tittel and its nominees, with Trident Capital to be a nominee of Tittel for such proportion of the Proponent shares as separately agreed with Tittel. All Proponent Shares are to be ranked equally with all other existing shares;
    - An issue of 250,000,000 new shares for an issue price of not less than $2,500,000 through a Prospectus. The funds raised will be used to satisfy all costs associated with the implementation of the Recapitalisation Proposal and also 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 (as set out in the prospectus;
    - The Shareholder's Agreement dated 7 May 2010 determining the ownership, governance and management of NLSI was ratified;,;
    - The transfer of 50% of shares in relation to the ownership of NLSI to Tittel's nominee Narhex Life Sciences Development Limited ("NLSD") was also ratified;
    - Approval was given that in the event that the loan funds from Tittel 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 the Company transferring its remaining interest in NLSI to Tittel or its nominee; and
    - An issue of 26,666,666 new shares at an issue price of $0.003(0.3 cents) per share to Tittel or its nominees for no less than $80,000 in relation to third party costs for the Recapitalisation Proposal. The funds from the issue of these new shares will be held in trust for the Company by Trident to be utilised in the costs of the reconstruction work.
    - A resolution was also to be put to the members to change the company name to Narhex Limited. This resolution was not going to be supported and hence was withdrawn.
- The Company raised $480,000 through the issue of 160 million shares at $0.003 and paid $400,000 to the Administrator in accordance with the DOCA;
- On 14 January 2011 the Company successfully effectuated its Deed of Company Arrangement ("DOCA"), which resulted in the forgiveness of Creditors Claims subject to the DOCA;
- The Company has successfully raised $2,500,000 through the issue of 250 million shares at a price of one cent per share.

Directors' Declaration

The directors of the Company declare that:

(1) The attached financial statements and notes are in accordance with the *Corporations Act 2001*, including:

(a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and

(b) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the half-year ended on that date.

(2) In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board

Mr Peter Christie
Chairman

Perth
9 March 2011

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF NARHEX LIFE SCIENCES LTD

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Narhex Life Sciences Limited and controlled entities (the consolidated entity) which comprises the condensed statement of financial position as at 31 December 2008, the condensed statement of comprehensive income, the condensed statement of changes in equity, the condensed statement of cash flows for the half-year ended on that date, the accounting policies and other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Narhex Life Sciences Limited (the company) are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including 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 half-year 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Narhex Life Sciences Limited and controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the Corporations Act, provided to the directors of Narhex Life Sciences Limited and controlled entities on 9 March 2011, would be in the same terms if provided to the directors as at the date of this auditor's review report.

Basis for Disclaimer of Auditor's Conclusion

The following scope limitations occurred during the course of our review:

- The comparative figures in the financial report (as presented in the 31 December 2007 half-year financial report) were accompanied by a qualification of auditor's opinion in relation to:
    - The lack of sufficient appropriate audit evidence in relation to the financial information attributable to an associated entity (Cavidi AB), which was a subsidiary from 1 July 2007 to 30 November 2007, and an associate entity thereafter; and
    - The recoverable amount of a property held under license by a subsidiary entity;
- The above matters were also present in a qualification on the auditor's opinion on the 30 June 2008 financial report, along with an additional qualification in relation to:
    - The recoverable amount of the company's investment in subsidiaries;

  We were unable to satisfy ourselves in relation to these comparatives by any other means, and as a result we do not express an opinion on comparative information;
- The company was placed into voluntary administration on 9th February 2010. The administrator was appointed only in relation to Narhex Life Sciences Limited, and not in relation to subsidiary entities, and as a result we do not express an opinion on the financial report to the extent it is impacted by the operations of the subsidiaries; and
- The company had a subsidiary entity in China (Xi'an Hex Life Sciences Co Ltd) during the review period. We believe the subsidiary entity to be material to the financial report. We were unable to obtain sufficient appropriate audit evidence in relation to this entity for both the current and comparative periods, and as a result we do not express an opinion on the financial report to the extent it is impacted by the operations of the Xi'an Hex Life Sciences Co Ltd.

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Disclaimer of Auditor's Conclusion

Based on our review, and because of the existence of a limitation on the scope of our work, as described in the preceding paragraph, and the effect of such adjustments, if any, as might have be determined to be necessary had we been able to satisfy ourselves in relation to the matters described in the preceding paragraph, we are unable to and do not express an opinion as to whether the half-year financial report of Narhex Life Sciences Ltd is not in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Nexia ASR
ABN 16 847 721 257

GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Vic.

9 March 2011