

# Narhex Life Sciences Limited

ABN 51 094 468 318

Annual Report  
for the year ended 30 June 2010

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## CORPORATE INFORMATION

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This annual report covers 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 2 to 14. The directors’ report is not part of the financial statements.

### Directors

Mr Peter Nash (Chairman, Executive Director) *appointed Chairman on 27 January 2010; resigned as Chairman 13 January 2011*)

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

Ph: 08 6211 5099

Fax: 08 9218 8875

Web Site: [www.narhexlifesciences.com](http://www.narhexlifesciences.com)

## Directors' report

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### STATEMENT OF CORPORATE GOVERNANCE

This Statement reflects the corporate governance policies and practices of Narhex Life Sciences Limited as at 30 June 2010 and which were in place throughout the year.

The Board's philosophy is to adopt practices that are consistent with the current best practice recommendations of the ASX Corporate Governance Council and in the best interests of the Company. The governance practices are reviewed regularly.

A description of the Company's main corporate governance practices is set out below.

#### PRINCIPLE 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board's responsibilities include:

1. Leadership of the organisation;
2. Strategy formulation;
3. Overseeing planning activities;
4. Shareholder liaison;
5. Monitoring compliance and risk management;
6. Company finances;
7. Human resources;
8. Remuneration policy.

#### PRINCIPLE 2 STRUCTURE OF THE BOARD TO ADD VALUE

The skills, experience and qualifications relevant to the position of director held by each director in office as the date of the annual report is included in the Directors' Report.

The Board's long term aims are to include both executive and non-executive directors. Desirably, and where possible, the non-executive directors will be fully independent directors within the definition provided in the recommendations.

No independent directors were part of the Board during the year, and hence this is not in accordance with Recommendation 2.1.

During the year the Board comprised:

| <i>Name</i>           | <i>Position</i>                 |
|-----------------------|---------------------------------|
| Dr Michael John Cohen | Executive Chairman              |
| Mr Peter Nash         | Executive Chairman and Director |
| Mr David Mandel       | Chairman and Director           |
| Mr Ian Reynolds       | Director                        |
| Mr Anthony Say        | Director                        |

The Executive Chairman is not an independent director, and hence this is not in accordance with ASX Recommendations 2.2 and 2.3.

Details of meetings of the Board of Directors and attendances thereon are set out in the Directors' Report.

To assist in carrying out their responsibilities as directors, after prior consultation with the Chairman of the Board of Directors, directors are able to obtain independent professional advice at the expense of the Company. Such advices as received are available to all directors for their consideration.



## Directors' report

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The Company's Constitution does not require a shareholding qualification for directors. Details of each director's entitlement to the Company's shares are set out in the Directors' Report.

### *Nomination Committee (NC)*

Allowing for the size of the Company the Board has not established a NC, but carries out the functions of an NC within the framework of the Board Meetings.

The NC regularly reviews the performance of Board members and legislative requirements to ensure that the Board will in time have the mix of skills and experience necessary for the effective conduct of the Company's activities.

In assuming these responsibilities, the procedures applied by the Board for appointing a director include the selection of a nominee with the skills and experience identified as being required to complement the existing skills and experiences of the existing Board. The Board also draws upon advice from external consultants and internal industry experiences when appropriate.

The terms and conditions of the appointment are communicated to the nominees and include the level of remuneration.

The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee. Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the companies scope of activities, and intellectual and physical ability to undertake Board responsibilities. Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting.

## **PRINCIPLE 3 PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

Due to the size of the Company and the resources available to it, the Board does not consider that a formal Code of Conduct for Directors and other key executives is appropriate. Rather, it is agreed by the Board that all officers of the Company will act ethically and in the best interests of the Company.

The Company has a share trading policy that regulates the dealings by Directors, officers and employees, in shares, options and other securities issued by the Company.

Under the Company's Securities Trading Policy, an Executive, including a Director, Company Secretary, or employee (and any employee of any subsidiary) must not trade in any securities of the Company at any time when they are in possession of unpublished price sensitive information in relation to those securities or the Company's operations.

Before commencing to trade, an executive must first obtain the approval of the Board to purchase (including the exercise of any options) or sell any securities of the Company.

The policy has been formulated to ensure that Directors, officers, employees and consultants who work on a regular basis for the Company are aware of the legal restrictions on trading in company securities while in possession of unpublished price-sensitive information.

No female directors were part of the Board during the year, and hence this is not in accordance with Recommendation 3.2.

As the Company has no employees during the year, there was no gender diversity policy in place. This is not in accordance with Recommendation 3.3.

## Directors' report

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### PRINCIPLE 4 SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

#### Audit Committee (AC)

The Board formally established an AC in December 2006 under the Chairmanship of Mr P R Hodge who, as a non-executive director, was separate from the Chairman of the Board. This committee became non operational as a result of the resignation of the independent chairman but will be re-established once the Company's recapitalisation process has been completed, as evidenced by the Company being reinstated to trading on the ASX. The AC comprised the following members during the year:

| <i>Name</i>           | <i>Position</i>             |
|-----------------------|-----------------------------|
| Dr Michael John Cohen | Member – Executive Director |

Prior to the passing of the director, Michael Cohen, the Audit Committee had only one member. Moreover, a formal audit charter is yet to be prepared. Both of these are not in accordance with Recommendations 4.2 and 4.3.

The Audit Committee was charged with assessing the adequacy of the Company's financial and operating risk management controls, compliance with legal requirements and ethical guidelines affecting the Company.

The Audit Committee when reconstituted will assess and review external and internal audits and any material issues arising from these audits. It will also assess and review the accounting policies and practices of the Group as an integral part of reviewing the half yearly and full year accounts for recommendation to the Board. It also makes recommendations to the Board regarding the appointment of external auditors and the level of their fees and provides a facility, if necessary, to convey any concerns raised by the internal and external auditors independently of management influence.

The Company Secretary acts as the Committee Secretary assisting members and the Company's external auditors are invited to attend the Committee's meetings. In addition the Committee is able to seek and obtain input from external consultants as required.

In addition, the Board of Directors will ultimately expand the responsibilities of the Audit Committee once formed, to include the formal evaluation of risk factors inherent in the Company's activities and to develop a system for identifying and evaluating risk, the management of risk and the reporting thereon.

### PRINCIPLE 5 MAKE TIMELY AND BALANCED DISCLOSURE

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the Australian Securities Exchange ("ASX") as well as communicating with the ASX. In accordance with the ASX's 'Listing Rules' the Company immediately notifies the ASX of information concerning the Company:

1. That a reasonable person would or may expect to have a material effect on the price or value of the Company's securities; and
2. That would, or would be likely to influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities;

Due to the size of the Company, it achieves compliance with ASX 'Listing Rules' disclosure requirements without the need for formal policies and procedures, however, there are specific processes followed by the Board and officers with regard to ensuring the Company complies with its disclosure requirements.

## Directors' report

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### PRINCIPLE 6 RESPECT THE RIGHTS OF SHAREHOLDERS

The Company endeavours to keep its Shareholders fully informed of matters likely to be of interest to them.

Currently the annual report is distributed to all shareholders who request a copy, and all are informed of its availability on the company's website. A copy of the full annual report is available free of charge, upon request, from the Company. The Board ensures that the annual report includes relevant information about the operation of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Act 2001. Recent changes to the Act now require shareholders to advise the Company in writing that they wish to continue to receive the printed annual report.

The half-year report is intended to contain summarised financial information and a review of the operations of the Company during the period. The half-year financial statements are prepared in accordance with the requirements of Accounting Standards and the Corporations Act 2001, and is lodged with the Australian Securities and Investments Commission and the ASX.

The Company's internet website ([www.narhexlifesciences.com](http://www.narhexlifesciences.com)) is regularly updated and provides details of recent material announcements by the Company to the ASX, the half and full year trading results, annual reports, and general information on the Company and its business.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure Board and Management accountability to the Company's announced strategies and goals. Important issues are presented to the shareholders as single resolutions.

The external auditor attends the Company's Annual General Meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the Independent Audit Report. Members wishing to have questions put to the Auditors can now lodge written questions of the Auditor which will be presented at the meeting for answering and any discussion arising there from. Under recent changes to the Corporations Act the written questions are required to be lodged with the Company 5 business days prior to the holding of the Annual General Meeting

### PRINCIPLE 7 RECOGNISE AND MANAGE RISK

The Company is a small biotechnology entity at the initial stages of intellectual property development of the anti HIV Protease Inhibitor DG 17 together with, through its small shareholding in Cavid AB, the further development, production and marketing of HIV viral load and HIV susceptibility testing kits (ExaVir Load and ExaVir Drug respectively). The investment risk profile of the Company is high and investments in this Company are considered speculative. The success of the Company is dependent upon the development and commercialisation of the Company's Intellectual Property and the sale of the range of ExaVir assay kits developed and produced by Cavid A B.

The Board defines risks to achieving commercial success is any event that, if it occurs will have a material impact on the ability of the Company to achieve its objectives. Risk is considered across the financial, operational and organisational aspects of the Company's affairs.

The Board has not at this time considered it appropriate to appoint a separate Risk Management Committee. Rather it has decided to expand the responsibilities of the Audit Committee when established to include the formal identification, evaluation and management of risk factors inherent in the Company's activities and to develop a risk management framework for identifying and evaluating risk, managing identified risks when present and reporting thereon. Responsibility for developing and monitoring corporate governance policies and practices in areas outside the scope of the functions of the Audit Committee is retained and exercised directly at Board level.

Pending the establishment of the Audit Committee to create the risk management framework and reporting system in relation to identifying areas of significant business risk and putting in place arrangements to manage such risk the Board is responsible for risk oversight and management with the day to day responsibility delegated to the acting Chief Executive who in turn relies on the advice and expertise of senior management acting in consultation with the Company's external advisers.

## Directors' report

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The Acting Chief Executive is responsible for:

- Identification and Monitoring of risk;
- Communication of risk events to the Board; and
- Responding to risk events, with Board authority.

Where considered appropriate the Board obtains advice directly from external advisers.

## PRINCIPLE 8 REMUNERATE FAIRLY AND RESPONSIBLY

### Remuneration Committee (RC)

Given the size of the Company, the size of the Board and the outsourcing of accounting and corporate secretarial functions no RC has been established. The Board has formed the view, given its size and structure that it is more efficient for the Board as a whole to deal with matters that would otherwise be dealt with by a remuneration committee.

Where required, Remuneration is set by reference to independent data, external professional advice, the Company's circumstances and the requirement to attract key management.

The amount of remuneration paid to all directors and executives including all monetary and non-monetary components are detailed in the Remuneration Report section of the Directors Report. The Board expects that the remuneration structure it has implemented will result in the Company being able to attract, retain and motivate its key executives.

There are no schemes for retirement benefits other than statutory superannuation for non-executive directors.

## Directors' report

The directors of Narhex Life Sciences Limited submit herewith the annual financial statements of the consolidated group (the "Group") and the company (the "Company") for the financial year ended 30 June 2010. 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 2009 to 30 June 2010. 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 Company was subject to a Deed of Company Arrangement (DOCA), which is designed to extinguish current debts and facilitate the Company being recapitalized and reinstated to quotation on the Australian Securities Exchange (ASX). That DOCA has since been effectuated and the Company is expected to soon be reinstated on the ASX. These Financial Statements report results and the financial position that are 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.

For additional information, please refer to further information contained within this Director's Report, together with Note 19 regarding events subsequent to balance date.

The names and particulars of the directors of the company during or since the end of the financial year are:

| Name                 | Particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dr Michael Cohen     | <b>Executive Chairman</b><br>Dr Michael Cohen passed away during the term of this Annual Report.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Mr Peter Nash        | <b>Executive Director</b><br>Mr Peter Nash has advised Australian businesses in relation to mergers, acquisitions and financing in China and has an extensive network of contacts in China.<br>Mr Nash was largely responsible for Moody International's foray into China through introducing it to CCIS State Inspection Authority.<br>Mr Nash has been instrumental in setting up manufacturing plants in China for C.E.M. International Ltd, a cryogenic vessel manufacturer, and Garwood International, a supplier of garbage compactor trucks.                                                                                                       |
| Mr David Mandel      | <b>Director</b><br>Mr Mandel has a BSc (Chemistry) in the UK and is also qualified as an Accountant (CIMA). Since returning to Australia he became a senior member of the Finance & Treasury Association (CFTP) and more recently a Member of the Institute of Company Directors (MICD). Mr Mandel worked for over twenty five years for multinational companies in Australia, the UK and the USA. For the last 10 years, Mr Mandel has consulted to a number of biotech, technology based and manufacturing businesses.                                                                                                                                  |
| Mr Peter Christie    | <b>Chairman</b><br>Peter Christie graduated from Curtin University with a Bachelor of Business in 1983 and is a qualified Accountant and Tax Agent. He has 27 years of commercial experience and in that time has developed extensive business, hospitality and property interests. Mr Christie is also currently a non-executive director of Carnavale Resources Limited (from 28 April 2006) and Safety Medical Products Limited (from 6 October 2010). Mr Christie has also been a non-executive director of Resource Generation Limited (from 29 November 2006 to 1 October 2007) and Triangle Energy Limited (from 2 July 2008 to 20 November 2009). |
| Mr Simon Lill        | <b>Director</b><br>Mr Lill is an Associate Director of Trident Capital. He has a BSc (Pharmacol.) and a Masters of Business Administration, both from The University of Western Australia. He has a background of over 25 years of stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries. Mr Lill is also currently a non-executive director of Safety Medical Products Limited.                                                                                                                                                   |
| Mr Ian Reynolds, AM. | <b>Director</b><br>Mr. Ian Reynolds is a Mechanical Engineer who has predominantly worked in the gas plant and equipment areas since graduating. He is one of three foundation Directors of CEM                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## Directors' report

|                |                                                                                                                                                                                                                                                                                                                                         |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                | International Pty Ltd, established in 1972 to design and manufacture Cryogenic Pressure Vessels for the Industrial Gas Industry. Ian then went on to be a founder of Changzhou CEM Special Equipment Co (1995) in the Peoples Republic of China.                                                                                        |
| Mr Anthony Say | <b>Director</b><br>Mr Tony Say has a Diploma in Applied Science (Metallurgy) together with a Graduate Diploma in Marketing. He has spent 20 years an employee of CEM International Pty Ltd, initially as Divisional Manager together with 10 years as Group Marketing Manager and then 7 years (continuing) as Chief Executive Officer. |

Note: A number of parties held the position of Chairman during the year as a result of the death of Dr. Cohen. At the date of this Report the Chairman of the Company is Mr. Peter Christie.

The above named directors held office during and since the end of the financial year, unless otherwise stated.

## Company secretary

| Name               | Particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ms. Nicki Farley   | Nicki has over 10 years experience working within the legal and corporate advisory area providing advice in relation to capital raisings, corporate and securities laws, mergers and acquisitions and general commercial transactions. Nicki has also held a number of company secretarial roles for ASX listed companies. Nicki holds a Bachelor of Laws and Arts from the University of Western Australia.                                                                  |
| Mr Mourice Garbutt | Mr Garbutt, through his professional corporate secretarial and compliance service company, provides secretarial, clerical and corporate governance support to client companies in Australia many of which are listed on the ASX.<br>Mr Garbutt has substantial experience in the area of listed company secretarial matters, compliance and corporate governance with over 30 years experience primarily within Australia but having worked in the Pacific region and Europe. |

## Principal activities

The principal activities of the consolidated entity during the year 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 profit after tax of the consolidated entity for the year ended 30 June 2010 was \$224,122 (2009: loss \$1,331,985).

## 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 development and commercialization of its anti-HIV protease inhibitor DG-17. DG-17 is the water-soluble pro-drug of the active anti-HIV drug DG-35.

During the financial year the company struggled to administer its operations both in Australia and China. 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. This was exacerbated by the Global Financial Crisis reducing the availability of capital and consequently 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 indefinitely delayed whilst the Company endeavoured to put itself back on a sound financial footing. Operations in the Company's subsidiaries in Hong Kong and Sweden, were substantially diminished and no results from either subsidiary are reflected in the current year's financial performance.



## Directors' report

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 Director 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
  - Cavid 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 Administrators;
- The Company transferred on half of its shares in NLSI to Tittel's nominee, Narhex Life Sciences Development Limited;
- The Administrators appointed Mr Ian Reynolds and Mr Tony Say as directors of the Company, and reappointed David Mandel and 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 0.3 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; and
  - 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;
- The Administrator has paid all outstanding dividends to creditors and has effectuated the DOCA; and
- The Company has successfully raised \$2,500,000 through the issue of 250 million shares at a price of one cent per share.

## Directors' report

### 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.

### Environmental regulation

The consolidated entity's operations are not subject to significant environmental regulations under the law of the Commonwealth or of a State, or Territory.

### Dividends

No dividend has been proposed or paid.

### Share options

No shares or interests were issued or granted during or since the end of the financial year as a result of the exercise of options. As at the date of this report, the Company held no unissued shares or interests under option.

### Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, Mr M Garbutt, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 5 board meetings and 1 audit, compliance and corporate governance committee meeting held within a board meeting were held.

| Directors        | Board of directors |          | Audit, Compliance and Corporate Governance Committee |          |
|------------------|--------------------|----------|------------------------------------------------------|----------|
|                  | Held               | Attended | Held                                                 | Attended |
| Dr Michael Cohen | 6                  | 6        |                                                      |          |
| Mr Peter Nash    | 8                  | 7        | -                                                    | -        |
| Mr David Mandel  | 8                  | 1        |                                                      |          |
| Mr Ian Reynolds  | -                  | -        |                                                      |          |
| Mr Anthony Say   | -                  | -        |                                                      |          |
|                  |                    |          |                                                      |          |



## Directors' report

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### Directors' shareholdings

The following table sets out each director's relevant interest in shares and options in shares of the company as at the date of this report.

| Directors          | Fully paid ordinary shares<br>Number |
|--------------------|--------------------------------------|
| Mr. Peter Christie | -                                    |
| Mr David Mandel    | 150,000                              |
| Mr. Simon Lill     | 4,000,000                            |
| Mr Peter Nash      | 50,000                               |

## Directors' report

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### Remuneration report

This report outlines the nature and amount of remuneration for directors and executives of the consolidated entity.

The performance of the Company depends upon the quality of its directors and executives to prosper. It is imperative that the company attract, motivate and retain appropriately experienced and qualified directors and executives. To this end, the company's remuneration framework is embodied with the principles of providing competitive rewards to attract high caliber executives and link executives' rewards to shareholder value.

In accordance with best practice corporate governance, the structure of non-executive directors and executive management remuneration is separate and distinct.

#### Non- executive Director Remuneration

The board policy is to remunerate non-executive directors at a level which provides the company with the ability to attract and retain directors with the experience and qualification appropriate to the development strategy of the company's Intellectual Property.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. This was set at \$200,000 pa by shareholders on 18 November 2005. Directors' fees are reviewed annually.

Non-executive directors' fees are not linked to the performance of the company. However to align directors interests with shareholder interests, the directors are encouraged to hold shares in the company.

#### Executive Directors' Remuneration

The board policy is to remunerate executive directors at a level that provides the company with the ability to attract and retain executives with the experience and qualification appropriate to the development strategy of the company's Intellectual Property.

Peter Nash (Executive Director) was employed on a contract that runs for a minimum of 3 years effective from 12 January 2005. This contract was terminated by the Company being placed into Administration. Peter has been responsible for the company's Chinese operations. At the AGM in October 2009 he was granted 5 million new ordinary shares – of which 3 million were awarded immediately as a bonus for his efforts in China, and a further 2 million were authorised for issue subject to the Xi'an Hex investment receiving and despatching the first order for the commercial distribution of the Cavid AB HIV viral load assay/testing kits in China. As at the date of this report this second bonus contract expired when the Company was placed into Administration. No component of this remuneration is directly linked to the financial performance of the company.

Dr Michael Cohen (Executive Chairman) was employed on a contract that ran for a minimum of 3 years effective from 24 October 2005. This contract was terminated by the Company being placed into Administration Prior to 1 July 2008 Dr Cohen requested that his remuneration be reduced to \$1 per annum, with this salary to be reviewed when the Company's performance has achieved more satisfactory outcomes in both its Chinese and Australian operations.

David Mandel (Director) has historically provided administrative services to the company on a pro-bono basis. In recognition of his efforts at the AGM in October 2009 he was awarded 1.5 million ordinary fully paid shares in recognition of these services. As the grant date of this bonus was at the October 2009 AGM, this bonus will accrue in the 2010 financial year.

No other Director has received any financial remuneration from the Company as at the date of this report.

#### Relationship between the remuneration policy and company performance

Aside from the matters described above, no Director held or holds any contract for performance-based remuneration with the Company.

## Directors' report

### Remuneration report (Cont'd)

#### Directors and executive details

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

Mr Peter Nash (Chairman, Executive Director) *appointed Chairman on 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 by Dr Michael Cohen, Mr Peter Nash and Mr. David Mandel.

#### Director and executive remuneration

The directors received the following amounts as compensation for their services as directors and executives of the company and/or the Group during the year;

| 2010             | Short-term employee benefits |          |          | Post employment benefits | Share-based payment          | Total \$ | % Consisting of share-based payments \$ |
|------------------|------------------------------|----------|----------|--------------------------|------------------------------|----------|-----------------------------------------|
|                  | Salary & fees \$             | Bonus \$ | Other \$ | Superannuation \$        | Shares granted and issued \$ |          |                                         |
| <b>Directors</b> |                              |          |          |                          |                              |          |                                         |
| Mr Peter Nash*   | 83,700                       | -        | 32,594   | 7,533                    | 56,520                       | 180,347  | 31.34%                                  |
| David Mandel*    | -                            | -        | -        | -                        | 28,260                       | 28,260   | 100.00%                                 |
| <b>Total</b>     | 83,700                       | -        | 32,594   | 7,533                    | 84,780                       | 208,607  | 100.00%                                 |

| 2009             | Short-term employee benefits |          |          | Post employment benefits | Share-based payment | Total \$ | % Consisting of share-based payments \$ |
|------------------|------------------------------|----------|----------|--------------------------|---------------------|----------|-----------------------------------------|
|                  | Salary & fees \$             | Bonus \$ | Other \$ | Superannuation \$        | Options & rights \$ |          |                                         |
| <b>Directors</b> |                              |          |          |                          |                     |          |                                         |
| Mr Peter Nash*   | 150,000                      | -        | 12,500   | 13,500                   | -                   | 176,000  | -                                       |
| <b>Total</b>     | 150,000                      | -        | 12,500   | 13,500                   | -                   | 176,000  | -                                       |

## Directors' report

\*Note: all cash-settled remuneration earned by Directors formed part of the Creditors' Claims under the Deed of Company Administration. For details of amounts forgiven from this process, refer to Note 7 to the financial statements attached to this Directors' Report.

## Remuneration report (Cont'd)

### Shares granted to directors

During the year shares were granted to directors as one-off bonus payments. Details of these bonuses are summarised in the commentary describing Executive Directors' Remuneration.

## Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 17 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 21 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Compliance and Corporate Governance Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

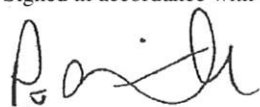
## Preparation of financial statements in relation to the consolidated entity

As at 28 June 2010, the Corporations Act 2001 no longer requires the preparation of parent entity accounts for the purpose of streamlining parent entity reporting. Where the entity is required to prepare financial statements in relation to the consolidated entity, the Corporations Regulations 2001 (the Principal Regulations) specify supplementary information about the parent entity that is to be included in a note to the consolidated financial statements. This information is disclosed in Note 20.

## Auditor's independence declaration

The auditor's independence declaration is attached to, and forms part of this Directors' 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 year ended 30 June 2010 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

**Statement of comprehensive income  
for the financial year ended 30 June 2010**

|                                                                  | Note | 2010<br>\$     | 2009<br>\$         |
|------------------------------------------------------------------|------|----------------|--------------------|
| Forgiveness of creditors' claims                                 | 7    | 845,761        | -                  |
| Other revenue                                                    |      | -              | 502                |
| Administration expenses                                          |      | (386,967)      | (697,970)          |
| Costs of administrators                                          |      | (245,948)      | -                  |
| Depreciation expense                                             |      | -              | (69,450)           |
| Finance costs                                                    |      | (24,663)       | (16,048)           |
| Impairment charges                                               |      | -              | (341,162)          |
| Research and development expenses                                |      | -              | (207,857)          |
| <b>Profit/(loss) before income tax</b>                           |      | <b>188,183</b> | <b>(1,331,985)</b> |
| Income tax benefit                                               | 5    | -              | -                  |
| <b>Net profit/(loss) for the year from continuing operations</b> |      | <b>188,183</b> | <b>(1,331,985)</b> |
| <b>Discontinued Operation</b>                                    |      |                |                    |
| Gain for the year from discontinued operation after tax          | 21   | 35,939         | -                  |
| <b>Profit/(Loss) for the year</b>                                |      | <b>224,122</b> | <b>(1,331,985)</b> |
| <b>Other comprehensive income</b>                                |      |                |                    |
| Foreign exchange translation differences                         |      | -              | 42,449             |
| <b>Total comprehensive income for the year</b>                   |      | <b>224,122</b> | <b>(1,289,536)</b> |
| Loss attributable to:                                            |      |                |                    |
| Equity holders of the parent                                     |      | 224,122        | (1,196,078)        |
| Minority interest                                                |      | -              | (135,907)          |
|                                                                  |      | <b>224,122</b> | <b>(1,331,985)</b> |
| From continuing and discontinued operations                      |      |                |                    |
| Earnings/(loss) per share (basic and diluted) (cents)            | 10   | 0.1            | (0.7)              |
| From continuing operations                                       |      |                |                    |
| Earnings per share (basic and diluted) (cents)                   | 10   | 0.1            | (0.7)              |

**Statement of financial position  
as at 30 June 2010**

|                                                             | <b>Note</b> | <b>2010<br/>\$</b> | <b>2009<br/>\$</b> |
|-------------------------------------------------------------|-------------|--------------------|--------------------|
| <b>CURRENT ASSETS</b>                                       |             |                    |                    |
| Cash and cash equivalents                                   | 12          | 9,993              | 183,092            |
| Trade and other receivables                                 |             | -                  | 2,532              |
| <b>Total Current Assets</b>                                 |             | <b>9,993</b>       | <b>185,624</b>     |
| <b>NON-CURRENT ASSETS</b>                                   |             |                    |                    |
| Investment in associate                                     | 6           | 125,000            | -                  |
| Property, plant and equipment                               | 6, 21       | -                  | 711,005            |
| <b>Total Non-Curent Assets</b>                              |             | <b>125,000</b>     | <b>711,005</b>     |
| <b>Total Assets</b>                                         |             | <b>134,993</b>     | <b>896,629</b>     |
| <b>CURRENT LIABILITIES</b>                                  |             |                    |                    |
| Bank overdraft                                              | 12          | -                  | 1,949              |
| Trade and other payables                                    | 7           | 388,944            | 1,247,650          |
| Financial liabilities                                       | 8           | 125,925            | 246,048            |
| <b>Total Current Liabilities</b>                            |             | <b>514,869</b>     | <b>1,495,647</b>   |
| <b>Total Liabilities</b>                                    |             | <b>514,869</b>     | <b>1,495,647</b>   |
| <b>Net Deficiency</b>                                       |             | <b>(379,876)</b>   | <b>(599,018)</b>   |
| <b>EQUITY</b>                                               |             |                    |                    |
| Issued capital                                              | 9           | 13,259,713         | 13,174,933         |
| Reserves                                                    |             | -                  | 69,496             |
| Accumulated losses                                          |             | (13,639,589)       | (13,904,211)       |
| Net deficiency attributable to equity holders of the parent |             | (379,876)          | (659,782)          |
| Minority interest                                           |             | -                  | 60,764             |
| <b>Total Deficiency</b>                                     |             | <b>(379,876)</b>   | <b>(599,018)</b>   |



**Statement of changes in equity  
for the financial year ended 30 June 2010**

|                                                                                                      | Fully paid<br>ordinary<br>shares<br>\$ | Equity-settled<br>benefits reserve<br>\$ | Foreign<br>currency<br>translation<br>reserve<br>\$ | Accumulated<br>losses<br>\$ | Attributable to<br>equity holders<br>of the parent<br>\$ | Minority<br>interest<br>\$ | Total<br>\$ |
|------------------------------------------------------------------------------------------------------|----------------------------------------|------------------------------------------|-----------------------------------------------------|-----------------------------|----------------------------------------------------------|----------------------------|-------------|
| <b>Balance at 1 July 2008</b>                                                                        | 13,174,933                             | 40,500                                   | (8,272)                                             | (12,708,133)                | 499,028                                                  | 152,870                    | 651,898     |
| Exchange differences<br>arising on translation of<br>foreign operation                               | -                                      | -                                        | -                                                   | -                           | -                                                        | -                          | -           |
| Loss for the period                                                                                  | -                                      | -                                        | 37,268                                              | (1,196,078)                 | 37,268                                                   | 5,181                      | 42,449      |
| <b>Total recognised income<br/>and expense</b>                                                       | -                                      | -                                        | 37,268                                              | (1,196,078)                 | (1,158,810)                                              | (130,726)                  | (1,289,536) |
| Change in minority<br>interest holding                                                               | -                                      | -                                        | -                                                   | -                           | -                                                        | 38,620                     | 38,620      |
| <b>Balance at 30 June 2009</b>                                                                       | 13,174,933                             | 40,500                                   | 28,996                                              | (13,904,211)                | (659,782)                                                | 60,764                     | (599,018)   |
| <b>Balance at 1 July 2009</b>                                                                        | 13,174,933                             | 40,500                                   | 28,996                                              | (13,904,211)                | (659,782)                                                | 60,764                     | (599,018)   |
| Loss for the period                                                                                  | -                                      | -                                        | -                                                   | 224,122                     | 224,122                                                  | -                          | 224,122     |
| <b>Total recognised income<br/>and expense</b>                                                       | -                                      | -                                        | -                                                   | 224,122                     | 224,122                                                  | -                          | 224,122     |
| Issue of shares to<br>directors                                                                      | 84,780                                 | -                                        | -                                                   | -                           | 84,780                                                   | -                          | 84,780      |
| Disposal of minority<br>interest                                                                     | -                                      | -                                        | -                                                   | -                           | -                                                        | (60,764)                   | (60,764)    |
| Realisation of foreign<br>currency differences on<br>translation on loss of<br>control of subsidiary | -                                      | -                                        | (28,996)                                            | -                           | (28,996)                                                 | -                          | (28,996)    |
| Transfer of equity<br>reserves                                                                       | -                                      | (40,500)                                 | -                                                   | 40,500                      | -                                                        | -                          | -           |
| <b>Balance at 30 June 2010</b>                                                                       | 13,259,713                             | -                                        | -                                                   | (13,639,589)                | (379,876)                                                | -                          | (379,876)   |

**Statement of cash flows**  
**for the financial year ended 30 June 2010**

|                                                                                    | <b>Note</b> | <b>2010</b><br>\$ | <b>2009</b><br>\$ |
|------------------------------------------------------------------------------------|-------------|-------------------|-------------------|
| <b>Cash flows from operating activities</b>                                        |             |                   |                   |
| Cash payments in the course of operations                                          |             | (319,944)         | (239,788)         |
| Interest received                                                                  |             | -                 | 502               |
| Interest paid                                                                      |             | (6)               | -                 |
| <b>Net cash flows used in operating activities</b>                                 | 12(b)       | <b>(319,950)</b>  | <b>(239,286)</b>  |
| <b>Cash flows from investing activities</b>                                        |             |                   |                   |
| Cash outflows from loss of control of subsidiary                                   | 21          | (174,200)         | -                 |
| Purchase of property, plant and equipment                                          |             | -                 | (164,842)         |
| <b>Net cash flows used in investing activities</b>                                 |             | <b>(174,200)</b>  | <b>(164,842)</b>  |
| <b>Cash flows from financing activities</b>                                        |             |                   |                   |
| Proceeds from director-controlled entity – Tittel Pty Ltd                          |             | 250,000           | -                 |
| Proceeds from convertible note                                                     |             | 73,000            | 230,000           |
| <b>Net cash flows provided by financing activities</b>                             |             | <b>323,000</b>    | <b>230,000</b>    |
| Net decrease in cash and cash equivalents                                          |             | (171,150)         | (174,128)         |
| Cash and cash equivalents at the beginning of the financial year                   |             | 181,143           | 325,619           |
| Effects of exchange rate changes on the balance of cash held in foreign currencies |             | -                 | 29,652            |
| <b>Cash and cash equivalents at the end of the financial year</b>                  | 12(a)       | <b>9,993</b>      | <b>181,143</b>    |

**Notes to the financial statements**

**NOTE 1 CORPORATE INFORMATION**

Narhex Life Sciences Limited is a company limited by shares incorporated in Australia whose shares have been publicly traded on the Australian Securities Exchange (ASX), and will shortly be reinstated for trading purposes.

**NOTE 2 ADOPTION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS AND CHANGES TO THE CORPORATIONS ACT 2011**

The Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory or became available for early adoption in the current year. None of the Standards adopted had a material impact upon these financial statements.

As at 28 June 2010, the Corporations Act 2001 no longer requires the preparation of parent entity accounts for the purpose of streamlining parent entity reporting. Where the entity is required to prepare financial statements in relation to the consolidated entity, the Corporations Regulations 2001 (the Principal Regulations) specify supplementary information about the parent entity that is to be included in a note to the consolidated financial statements. This information is disclosed in Note 20.

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

These financial statements include the consolidated financial statements of the Narhex Life Sciences Limited (the “Company”) and its subsidiaries (collectively the “Group”).

The general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (“AIFRS”). Compliance with AIFRS ensures that these financial statements comply with International Financial Reporting Standards.

The preparation of these financial statements requires directors to make judgements, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Where the directors believe this to be the case, the financial statements have provided a range of possible outcomes to assist the users of these financial statements.

**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. Please refer to Note 19 for more information regarding events subsequent to balance date.

**Notes to the financial statements**

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**a) Principles of consolidation**

The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the company (its subsidiaries) (referred to as 'Consolidated' in these financial statements). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the company, intra-group transactions ('common control transaction') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common transactions differ from their consolidated book value, the difference is recognized as a contribution by or distribution to equity participants by the transaction entities.

Minority interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interest consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

**b) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**c) Financial instruments**

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are then classified and measured as set out below.

Classification and Subsequent Measurement

All financial instruments of the Company are subsequently measured at amortised cost, using the effective interest rate method.

Amortised Cost

Amortised cost is calculated as a) the amount at which the financial asset or liability is measured at initial recognition; b) less principal repayments; c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and d) less any reduction for impairment.

Effective Interest Rate Method

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

**Notes to the financial statements**

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**c) Financial instruments (cont'd)**

Derecognition

Financial instruments are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortisation cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

**d) Financial instruments issued by the company**

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements.

**Notes to the financial statements**

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**e) Foreign currency**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Company, and the presentation currency for these consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in the foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

**f) Impairment of other tangible and intangible assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease (refer Note 3(m)).

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.



**Notes to the financial statements**

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**g) Income Tax**

Current tax

Current tax is calculated by reference to the amount of income taxes payable to or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequence that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities

Deferred Tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authorities and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

**h) Research and development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

**i) Property, plant and equipment**

Plant and equipment, are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.



**Notes to the financial statements**

**NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**i) Share-based payments**

Equity-settled share-based payments are measured at fair value of the equity instrument at the grant date. Fair value is measured by the use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

**j) Investment in associate**

The company's interest in its associate is brought to account using the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Company's share of assets in the associate. Profits and losses resulting from transactions between the Company and the associate entity are eliminated to the extent of the Company's interest in the associate.

**k) Investment in subsidiaries**

Investments in subsidiaries are measured at cost less any accumulated impairment charges.

**l) Comparative amounts**

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

**m) Critical accounting judgements and key sources of estimation uncertainty**

The directors have made a number of estimates and assumptions in preparing these financial statements under the going concern basis of accounting. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods if relevant.

The following key judgements were made in preparing these financial statements:

Reduction of interest of investment in Xi'an Hex Life Sciences Co, Ltd

For details concerning the reduction of interest of the Company's investment in Xi'an Hex Life Sciences Co. Ltd refer to note 21.

Notes to the financial statements

|  | 2010<br>\$ | 2009<br>\$ |
|--|------------|------------|
|--|------------|------------|

**NOTE 4 PROFIT/(LOSS) FOR THE YEAR**

Profit/(loss) for the year includes the following expenses:

|                                 |         |         |
|---------------------------------|---------|---------|
| Employee benefits costs         | 208,607 | 176,000 |
| Impairment charges              |         |         |
| - Property, plant and equipment | -       | 341,162 |

**NOTE 5 INCOME TAXES**

The group has tax losses arising in Australia of \$5,991,061 (2009: \$6,058,298) that are potentially available indefinitely for offset against future taxable profits of the companies in which the losses arose. Due to the low likelihood of the Company generating assessable taxable income to use these losses, the benefit of these tax losses has not been recognised as a deferred tax asset in these financial statements.

**NOTE 6 INVESTMENT IN ASSOCIATE**

|                                                                         |         |   |
|-------------------------------------------------------------------------|---------|---|
| 50% shareholding interest in Narhex Life Sciences International Pty Ltd | 125,000 | - |
|                                                                         | 125,000 | - |

During the year the Company formed a new subsidiary, Narhex Life Sciences International Pty Ltd and transferred all of its assets, investments in its subsidiaries and associated companies into the new company. On 7 May 2010 50% of the Company's interest in Narhex Life Sciences International Pty Ltd was sold to Tittel Pty Ltd nominee, Narhex Life Sciences Development Pty Ltd, for \$125,000. A further \$125,000 was loaned directly from Tittel Pty Ltd to the Company, secured against the remaining 50% equity holding in Narhex Life Sciences Limited. The Board has repaid this loan.

Aside from these activities, there was no other transaction in the associate. Its statement of financial position as at 30 June 2010 continued to reflect its only non-current asset, being its investment of 50% of NLSI, which has a written down value of \$250,000 and share capital of \$250,000.

Notes to the financial statements

|  | 2010 | 2009 |
|--|------|------|
|  | \$   | \$   |

**NOTE 7 TRADE AND OTHER PAYABLES**

|                           |                |                  |
|---------------------------|----------------|------------------|
| Trade and other creditors |                |                  |
| Subject to DOCA*          | 81,984         | 107,192          |
| Owing to related parties  |                |                  |
| Estate of Michael Cohen*  | -              | 150,000          |
| John Mills                | 49,790         | 49,790           |
| Peter Nash                | 95,682         | 315,522          |
| Tittel Pty Ltd*           | 105,800        | -                |
| Not subject to DOCA       | 55,688         | 625,146          |
|                           | <u>388,944</u> | <u>1,247,650</u> |

These are trade payables which are subject to the Deed of Company Arrangement ("DOCA") entered into between the Company and the Creditors on 7 May 2010. The DOCA was executed on 13 January 2011 at the amounts stated above. Some creditor claims were excluded by negotiation with the Administrators; others were only partially paid. The total of liabilities forgiven as a result of the Company's Administration process was \$845,761 (2009: \$nil), of which \$836,447 were for related parties, as follows:

|                                                                 |           |
|-----------------------------------------------------------------|-----------|
| - Peter Nash                                                    | \$343,667 |
| - Estate of Michael Cohen (net of transfer to Tittel Pty Ltd**) | \$386,980 |

\*\*During the year the convertible note formerly owing to the Estate of Michael Cohen crystallized as a Trade Creditor subject to the DOCA on 7 February 2010. Interest accrued at 14% on a per annum basis to the date of the appointment of the Administrator. The amount was subsequently acquired from the Estate of Michael Coehn by Tittel Pty Ltd prior to the effectuation of the DOCA.

Notes to the financial statements

|  | 2010<br>\$ | 2009<br>\$ |
|--|------------|------------|
|--|------------|------------|

**NOTE 8 FINANCIAL LIABILITIES**

Loan from director-controlled entity

- Tittel Pty Ltd

125,925

-

Convertible note (refer note 7)

-

246,048

125,925

246,048

The Tittel Pty Ltd loan is due to be repaid in full on 5 May 2011. Should the loan be not paid by this date, the Company's 50% interest in its associate in Narhex Life Sciences International Limited will be transferred to Tittel or its nominee. Interest is payable at 5% per annum calculated daily. As at 30 June 2010 \$925 (2009: \$nil) had accrued in interest charges on the loan. This loan, together with interest, has now been repaid in full.

Tittel Pty Ltd is controlled by a former director of the company, Mr. Ian Reynolds.

**NOTE 9 ISSUED CAPITAL**

|                                                          | 2010        |            |
|----------------------------------------------------------|-------------|------------|
|                                                          | No          | \$         |
| <b>Fully paid ordinary shares and authorised capital</b> |             |            |
| Balance at 1 July 2009                                   | 196,672,902 | 13,174,933 |
| Bonus shares issued to Directors                         | 4,500,000   | 84,780     |
| Balance at 30 June 2010                                  | 201,172,902 | 13,259,713 |

|                                                          | 2009        |            |
|----------------------------------------------------------|-------------|------------|
|                                                          | No          | \$         |
| <b>Fully paid ordinary shares and authorised capital</b> |             |            |
| Balance at 1 July 2008                                   | 196,672,902 | 13,174,933 |
| Balance at 30 June 2009                                  | 196,672,902 | 13,174,933 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends. All shares have a nil par value. Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

## Notes to the financial statements

|  | 2010<br>\$ | 2009<br>\$ |
|--|------------|------------|
|--|------------|------------|

### NOTE 10 EARNINGS/(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 profit/(loss) attributable to ordinary equity holders (used in calculating diluted EPS) – continuing and discontinuing operations. | 224,122     | (1,331,985) |
| Net profit/(loss) loss attributable to ordinary equity holders (used in calculating diluted EPS) – continuing operations.              | 188,183     | (1,331,985) |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share                                     | 199,015,368 | 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 11 INVESTMENT IN SUBSIDIARIES

The consolidated financial statements at 30 June 2010 include the following controlled and associated entities. The operating results of these companies have been included in the profit and loss account from the date of purchase.

| Name of entity                             | Country of incorporation   | Ownership interest |           |
|--------------------------------------------|----------------------------|--------------------|-----------|
|                                            |                            | 2010<br>%          | 2009<br>% |
| <b>Parent entity</b>                       |                            |                    |           |
| Narhex Life Sciences Limited               | Australia                  |                    |           |
| <b>Subsidiaries and associates</b>         |                            |                    |           |
| Narhex Life Sciences International Pty Ltd | Australia                  | 50                 | -         |
| Narhex Limited                             | Hong Kong                  | -                  | 100       |
| Cavidi AB (Part Year)                      | Sweden                     | -                  | 8.9       |
| Xi'an-Hex Life Sciences Co., Ltd           | People's Republic of China | -                  | 85        |

Notes to the financial statements

NOTE 12 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:

|                | 2010<br>\$   | 2009<br>\$     |
|----------------|--------------|----------------|
| Cash in hand   | 9,993        | 183,092        |
| Bank overdraft | -            | (1,949)        |
|                | <u>9,993</u> | <u>181,143</u> |

(b) Reconciliation of loss for the period to net cash flows from operating activities

|                                          | 2010<br>\$       | 2009<br>\$         |
|------------------------------------------|------------------|--------------------|
| Net profit/(loss)                        | 224,122          | (1,331,985)        |
| <b>Adjustments for</b>                   |                  |                    |
| Depreciation                             | -                | 69,450             |
| Finance costs                            | 24,657           | 16,048             |
| Forgiveness of creditors' claims         | (845,761)        |                    |
| Impairment charges                       | -                | 341,162            |
| Profit on loss of control of subsidiary  | (35,939)         | -                  |
| Share-based payments                     | 84,780           | -                  |
| Unrealised foreign exchange losses       | -                | (46,467)           |
| <b>Changes in assets and liabilities</b> |                  |                    |
| (Increase)/decrease in assets:           |                  |                    |
| Current receivables                      | -                | 37,389             |
| (Decrease)/increase in liabilities:      |                  |                    |
| Trade and other payables                 | <u>228,191</u>   | <u>675,117</u>     |
|                                          | <u>(319,950)</u> | <u>(1,519,640)</u> |

## Notes to the financial statements

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### NOTE 13 FINANCIAL INSTRUMENTS

#### (a) Financial risk management policies

The Group's principal financial instruments comprise cash and short-term deposits, trade and other payables and financial liabilities as disclosed in the financial statements. The main purpose of these financial instruments is to manage the working capital needs of the Group's operations. It is the Group's policy that no trading in financial instruments shall be undertaken. The main risk arising from the Group's financial instruments is liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

#### (i) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

#### (ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### (iii) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analyses.

The directors consider that the carrying amounts of financial assets and financial liabilities which are all recorded at amortised cost less accumulated impairment charges in the financial statements, approximate their fair values.

### NOTE 14 SHARE-BASED PAYMENTS

At the AGM in October 2009 Peter Nash, a director of the Company, was granted 5 million in new ordinary shares – of which 3 million were awarded immediately as a bonus for his efforts in China, and a further 2 million were authorised for issue subject to the Xi'an Hex investment receiving and despatching the first order for the commercial distribution of the Cavid AB HIV viral load assay/testing kits in China. As at the date of this condition remained unfulfilled and when the Company was placed into Administration the arrangement expired. No component of this remuneration is directly linked to the financial performance of the company.

David Mandel (Director) has historically provided administrative services to the company on a pro-bono basis. In recognition of his efforts at the AGM in October 2009 he was awarded 1.5 million ordinary fully paid shares in recognition of these services. Again, this share-based payment was not referable to the financial performance of the Company.

The entire number of shares issued to the Directors, being 4,500,000, listed at 1.884 cents per share, and their dilutive impact upon existing ordinary shares increased the loss of the company for the year by \$84,780.



## Notes to the financial statements

### NOTE 15 KEY MANAGEMENT PERSONNEL COMPENSATION

#### Details of Key Management Personnel

The directors and other members of key management personnel of the Group during the year were:

Mr Peter Nash (Chairman, Executive Director) *appointed Chairman on 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)*

#### Key management personnel compensation

The aggregate compensation made to key management personnel of the company and the Group is set out below:

|                              | Consolidated |            |
|------------------------------|--------------|------------|
|                              | 2010<br>\$   | 2009<br>\$ |
| Short term employee benefits | 91,294       | 162,500    |
| Post-employment benefits     | 7,533        | 13,500     |
| Termination benefits         | 25,000       | -          |
| Share-based payments         | 84,780       | -          |
|                              | 208,607      | 176,000    |

Note, this compensation was subsequently forgiven as part of the Administration process and wind-up of the DOCA. For details of how this affected Key Management Personnel transactions, refer to Note 7.

## Notes to the financial statements

### NOTE 16 RELATED PARTY TRANSACTIONS

#### (a) Transactions with key management personnel

##### i. Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 15 to the financial statements.

##### ii. Key management personnel equity holdings

Fully paid ordinary shares of Narhex Life Sciences Limited

|                  | Balance at 1 July<br>or on date of<br>appointment<br>No. | Net change<br>No. | Balance at 30<br>June or on date<br>of resignation<br>No. |
|------------------|----------------------------------------------------------|-------------------|-----------------------------------------------------------|
| <b>2010</b>      |                                                          |                   |                                                           |
| Mr David Mandel  | -                                                        | 1,500,000         | 1,500,000                                                 |
| Mr Ian Reynolds  | 740,000                                                  | -                 | 740,000                                                   |
| Dr Michael Cohen | 1,740,000                                                | -                 | 1,740,000                                                 |
| Mr Peter Nash    | 500,000                                                  | 3,500,000         | 4,000,000                                                 |
| <b>Total</b>     | <b>3,480,000</b>                                         | <b>4,500,000</b>  | <b>7,980,000</b>                                          |
| <b>2009</b>      |                                                          |                   |                                                           |
| Dr Michael Cohen | 1,740,000                                                | -                 | 1,740,000                                                 |
| Mr Peter Nash    | 500,000                                                  | -                 | 500,000                                                   |
| <b>Total</b>     | <b>2,240,000</b>                                         | <b>-</b>          | <b>2,240,000</b>                                          |

Share options of Narhex Life Sciences Limited

|                  | Balance<br>at 1 July<br>No. | Granted<br>as compen-<br>sation<br>No. | Lapsed<br>No.      | Balance<br>at 30<br>June or<br>when<br>resigned<br>No. | Balance<br>vested<br>and<br>exercise-<br>able at 30<br>June<br>No. |
|------------------|-----------------------------|----------------------------------------|--------------------|--------------------------------------------------------|--------------------------------------------------------------------|
| <b>2010</b>      |                             |                                        |                    |                                                        |                                                                    |
| Dr Michael Cohen | 525,000                     | -                                      | (525,000)          | -                                                      | -                                                                  |
| Mr Peter Nash    | 800,000                     | -                                      | (800,000)          | -                                                      | -                                                                  |
| <b>Total</b>     | <b>1,325,000</b>            | <b>-</b>                               | <b>(1,325,000)</b> | <b>-</b>                                               | <b>-</b>                                                           |
| <b>2009</b>      |                             |                                        |                    |                                                        |                                                                    |
| Dr Michael Cohen | 1,025,000                   | -                                      | (500,000)          | 525,000                                                | 525,000                                                            |
| Mr Peter Nash    | 800,000                     | -                                      | -                  | 800,000                                                | 800,000                                                            |
| <b>Total</b>     | <b>1,825,000</b>            | <b>-</b>                               | <b>(500,000)</b>   | <b>1,325,000</b>                                       | <b>1,325,000</b>                                                   |

### NOTE 17 REMUNERATION OF AUDITORS

|                                                 | 2010<br>\$    | 2009<br>\$    |
|-------------------------------------------------|---------------|---------------|
| <b>Auditor of the parent entity – Nexia ASR</b> |               |               |
| Audit or review of the financial statements     | 28,595        | 22,500        |
| Other non audit services – tax compliance       | -             | -             |
|                                                 | <u>28,595</u> | <u>22,500</u> |

#### **Directors' declaration**

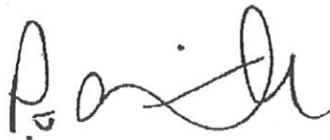
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The directors of the Company declare that:

- (1) The attached financial statements and notes are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards; and
  - (b) give a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date for the Company and the Group;
  
- (2) The Chief Executive Officer has declared that:
  - (a) the financial records of the company for the financial year have been properly maintained in accordance with s.286 of the *Corporations Act 2001*;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view;
  
- (3) 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  
Wednesday 9 March 2011

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

### Report on the Financial Report

We have audited the accompanying financial report of Narhex Life Sciences Ltd, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial reporting Standards (IFRS) ensures that the financial statements, comprising the financial statements and notes, complies with IFRS.

### *Auditor's Responsibility*

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

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

'value beyond numbers'

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

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Narhex Life Sciences Ltd on 9 March 2011, would be in the same terms if provided to the directors as at the date of this auditor's report. *Basis for Disclaimer of Auditor's Opinion*

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

- The comparative figures in the financial report (as presented in both the 30 June 2009 financial report and 31 December 2009 half-year financial report) were accompanied by a disclaimer of auditor's opinion. 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; and
- The company was placed into voluntary administration on 9 February 2010. The administrator's appointment was for Narhex Life Sciences Limited, and did not extend to the subsidiary company, whose operations are material to the group. The subsidiary entity, based in China (Xi'an Hex Life Sciences Co Ltd), was deconsolidated on 24 June 2010. We were unable to obtain sufficient appropriate audit evidence in relation to this subsidiary 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 Limited.

### *Disclaimer of Auditor's Opinion*

In our opinion, because of the existence of the limitation on the scope of our work, as described in the preceding paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express an opinion as to whether the financial report of Narhex Life Sciences Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date;
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (c) complying with International Financial reporting Standards as disclosed in note 1.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages X to X of the directors' report for the year 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Basis for Qualified Auditor's Opinion on the Remuneration Report*

The company had a subsidiary entity in China (Xi'an Hex Life Sciences Co Ltd) from 1 July 2009 to 24 June 2010. We were unable to obtain sufficient appropriate audit evidence in relation to this entity for both the current and comparative periods. We were unable to conclude as to whether any key management personnel exist for this entity whose remuneration should be disclosed in the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*.

### *Qualified Auditor's Opinion on the Remuneration Report*

In our opinion, except for the effect on the Remuneration Report of the matter referred to in the preceding paragraph, the Remuneration Report of Narhex Life Sciences Ltd for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



**Nexia ASR**  
ABN 16 847 721 257



**GEORGE S. DAKIS**  
Partner  
Audit & Assurance Services

Melbourne, Vic.

9 March 2011