

Narhex Life Sciences Limited

ABN 51 094 468 318

Financial Report
for the half year ended 31 December 2010

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CORPORATE INFORMATION

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

A description of the Group’s operations and of its principal activities is included in the review of operations and activities in the directors’ report on pages 2 to 4. 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*)

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 (*resigned 1 March 2011*)

Registered and Principal Office

Level 24
44 St Georges Terrace
PERTH, WA. 6000

Auditors

Nexia ASR
Level 14, 440 Collins Street,
MELBOURNE VIC 3000

Share Registry & Register

Link Market Services Ltd
Level 1, 333 Collins Street
MELBOURNE VIC 3000

Solicitors

Price Sierakowski
Level 24, 44 St Georges Terrace
PERTH, WA. 6000.

Bankers

National Australia Bank
100 St Georges Terrace
PERTH, WA. 6000.

Stock Exchange Listing

Narhex Life Sciences Limited is listed on
the Australian Securities Exchange.
ASX Code : NLS

Contact Information

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Directors' report

The directors of Narhex Life Sciences Limited (the "Company") submit herewith the interim financial statements of the Company for the half year ended 31 December 2010.

These Financial Statements cover the half year ended 31 December 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 Administrators entered into a Deed of Company Arrangement (DOCA) on behalf of the Company which had the effect of extinguishing the current debts and facilitating the Company being recapitalized and reinstated to quotation on the Australian Securities Exchange (ASX). The DOCA has since been effectuated and the Company passed back to the control of its Directors. These Financial Statements report results and a financial position that is not representative of the position of the Company following completion of the recapitalisation and should not be used as the basis for any decision about the Company or its prospects.

Directors and executive details

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

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

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 Mr Peter Nash and Mr. David Mandel.

Principal activities

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. It also has an investment in the development; manufacturing and marketing of HIV related diagnostics and therapeutic products.

Operating results

The loss after tax of the consolidated entity for the half year ended 31 December 2010 was \$231,810 (2009: loss \$220,750).

Directors' report

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. It also has an investment in the development; manufacturing and marketing of HIV related diagnostics and therapeutic products.

At the beginning of the period the Company was in Administration, subject to a Deed of Company Arrangement. 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 Administrator;
- 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 in addition to Peter Nash;
- The Company entered into a Shareholders' Agreement substantially in the form annexed to the DOCA, which sets out the governance and management of NLSI;
- At a meeting on 5 November 2010 the following resolutions were carried by the members of the company:
 - A consolidation of the ordinary share capital of the company on a 1 for 10 basis, effective on 15 November 2010;
 - An issue of 133,333,000 Proponent Shares at an issue price of \$0.003(0.3 cents) per share to raise \$400,000 for payment of the Deed Administrators' costs and Creditors Claims. The shares were issued to Tittel and its nominees, with Trident Capital to be a nominee of Tittel for such proportion of the Proponent shares as separately agreed with Tittel. All Proponent Shares are to be ranked equally with all other existing shares;
 - An issue of 250,000,000 new shares for an issue price of not less than \$2,500,000 through a Prospectus. The funds raised will be used to satisfy all costs associated with the implementation of the Recapitalisation Proposal and also applied towards the Company's ongoing business and to identify the acquisition and development of opportunities and other investments and to implement the Company's operational and expenditure plans (as set out in the prospectus);
 - The Shareholder's Agreement dated 7 May 2010 determining the ownership, governance and management of NLSI was ratified;;
 - The transfer of 50% of shares in relation to the ownership of NLSI to Tittel's nominee Narhex Life Sciences Development Limited ("NLSD") was also ratified;
 - Approval was given that in the event that the loan funds from Tittel are not repaid within 6 months following the date of the General Meeting, Tittel agrees to forgive the loan (including any interest) in consideration for the Company transferring its remaining interest in NLSI to Tittel or its nominee; and
 - An issue of 26,666,666 new shares at an issue price of \$0.003(0.3 cents) per share to Tittel or its nominees for no less than \$80,000 in relation to third party costs for the Recapitalisation Proposal. The funds from the issue of these new shares will be held in trust for the Company by Trident to be utilised in the costs of the reconstruction work.
 - A resolution was also to be put to the members to change the company name to Narhex Limited. This resolution was not going to be supported and hence was withdrawn.

Directors' report

- Following the meeting, 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;
- The Company has successfully raised \$2,500,000 through the issue of 250 million shares at a price of one cent per share.

Future developments

The Company is now seeking reinstatement on the ASX.

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

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

Dividends

No dividend has been proposed or paid.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of this report.

Signed in accordance with a resolution of the directors



Mr Peter Christie
Chairman

Perth
9 March 2011

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

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 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

'value beyond numbers'

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**Statement of comprehensive income
for the half year ended 31 December 2010**

	Note	2010 \$	2009 \$
Administration expenses		(110,612)	(237,603)
Finance costs		(3,148)	(19,086)
Share of net loss of associate	8	(118,050)	-
Loss before income tax		(231,810)	(256,689)
Income tax benefit		-	-
Net loss for the half year from continuing operations		(231,810)	(256,689)
Discontinued Operation			
Gain from discontinued operation after tax		-	35,939
Loss for the half year		(231,810)	(220,750)
Other comprehensive income		-	-
Comprehensive income for the half year		(231,810)	(220,750)
From continuing and discontinued operations			
Earnings per share (basic and diluted) (cents)		(0.3)	(1.1)
From continuing operations			
Earnings per share (basic and diluted) (cents)		(0.3)	(1.3)

**Statement of financial position
as at 31 December 2010**

		31 December 2010 \$	30 June 2010 \$
CURRENT ASSETS			
Cash and cash equivalents		41,588	9,993
Trade and other receivables		<u>6,219</u>	<u>-</u>
Total Current Assets		<u>47,807</u>	<u>9,993</u>
NON-CURRENT ASSETS			
Investment in associate	8	<u>6,950</u>	<u>125,000</u>
Total Non-Curent Assets		<u>6,950</u>	<u>125,000</u>
Total Assets		<u>54,757</u>	<u>134,993</u>
CURRENT LIABILITIES			
Trade and other payables		57,370	388,944
Financial liabilities		<u>129,073</u>	<u>125,925</u>
Total Current Liabilities		<u>186,443</u>	<u>514,869</u>
Total Liabilities		<u>186,443</u>	<u>514,869</u>
Net Deficiency		<u>(131,686)</u>	<u>(379,876)</u>
EQUITY			
Issued capital		480,000	13,259,713
Accumulated losses		<u>(611,686)</u>	<u>(13,639,589)</u>
Total Deficiency		<u>(131,686)</u>	<u>(379,876)</u>

Statement of changes in equity
for the half year ended 31 December 2010

	Fully paid ordinary shares \$	Reserves \$	Accumulated losses \$	Attributable to equity holders of the parent \$	Minority interest \$	Total \$
Balance at 1 July 2009	13,174,933	69,496	(13,904,211)	(659,782)	60,764	(599,018)
Loss for the period	-	-	(220,750)	(220,750)	-	(220,750)
Total recognised income and expense	-	-	(220,750)	(220,750)	-	(220,750)
Issue of shares to directors	84,780	-	-	84,780	-	84,780
Realisation of foreign currency differences on translation on loss of control of subsidiary	-	(28,996)	-	(28,996)	-	(28,996)
Lapse of share options	-	(40,500)	40,500	-	-	-
Disposal of minority interest	-	-	-	-	(60,764)	(60,764)
Balance at 31 December 2009	13,259,713	-	(14,084,461)	(824,748)	-	(824,748)
Balance at 1 July 2010	13,259,713	-	(13,639,589)	(379,876)	-	(379,876)
Loss for the period	-	-	(231,810)	(231,810)	-	(231,810)
Total recognised income and expense	-	-	(231,810)	(231,810)	-	(231,810)
Consolidation of capital	(13,259,713)	-	13,259,713	-	-	-
Issue of fully paid ordinary shares	480,000	-	-	480,000	-	480,000
Balance at 31 December 2010	480,000	-	(611,686)	(131,686)	-	(131,686)

Statement of cash flows
for the half year ended 31 December 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
Cash payments in the course of operations		(448,938)	(70,745)
Interest paid		-	(3)
Net cash flows used in operating activities		(448,938)	(70,748)
Cash flows from investing activities			
Cash outflow from loss of control of subsidiary		-	(174,200)
Net cash flows used in investing activities		-	(174,200)
Cash flows from financing activities			
Proceeds from the issue of shares		480,000	-
Proceeds from convertible note		-	73,000
Net cash flows provided by financing activities		480,000	73,000
Net increase/(decrease) in cash and cash equivalents		31,062	(171,948)
Cash and cash equivalents at the beginning of the half year		9,993	181,143
Effects of exchange rate changes on the balance of cash held in foreign currencies		-	-
Cash and cash equivalents at the end of the half year		41,055	9,195

Notes to the financial statements

NOTE 1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of Compliance

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Narhex Life Sciences Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2010 financial report. The half-year report does not include full disclosures of the type normally included in an annual financial report.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2010.

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

NOTE 3 ADOPTION OF NEW AND REVISED AUSTRALIAN ACCOUNTING STANDARDS

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 period. None of the Standards adopted had a material impact upon these financial statements.

Notes to the financial statements

	2010	2009
	\$	\$

NOTE 4 LOSS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Net loss for the half year attributable to ordinary equity holders (used in calculating diluted EPS) – continuing and discontinuing operations:	<u>(231,810)</u>	<u>(220,750)</u>
Net loss for the half year attributable to ordinary equity holders (used in calculating diluted EPS) – continuing operations:	<u>(231,810)</u>	<u>(256,689)</u>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share adjusted for share consolidation*	<u>68,813,002</u>	<u>19,689,301</u>

*For details of the share consolidation refer to Note 5. The comparative calculation has been amended to reflect the results of the share consolidation. This decreased the weighted average number of ordinary shares for basic and diluted earnings from 196,893,011 to 19,689,301; increased the basic and diluted loss per share from continuing and discontinuing operations from 0.1 cents to 1.1 cents per share; and increased the basic and diluted loss per share from continuing operations from 0.1 cents to 1.3 cents per share.

NOTE 5 ISSUED CAPITAL

	No	2010
		\$
Fully paid ordinary shares and authorised capital		
Balance at beginning of the financial period	201,172,902	13,259,713
Consolidation of capital 1 for 10 basis approved by shareholders at the Annual General Meeting on 5 November 2010 – issued capital applied to accumulated losses	(181,055,552)	(13,259,713)
Issue of fully paid ordinary shares at \$0.003 per share approved at the Annual General Meeting on 5 November 2010	160,000,000	480,000
Balance at the end of the financial period	<u>180,117,350</u>	<u>480,000</u>

Notes to the financial statements

NOTE 6 CONTINGENT LIABILITIES

As at 31 December 2010 the Company had no known contingent liabilities.

NOTE 7 SUBSEQUENT EVENTS

On 14 January 2011 the Company successfully effectuated its Deed of Company Arrangement ("DOCA"), which resulted in the forgiveness of Creditors Claims subject to the DOCA.

As at 17 January 2011 the Company issued a Prospectus to raise \$2,500,000 through the issue of 250,000,000 shares at 1 cent each. The Prospectus was successful, with the Company raising the full \$2,500,000 and issuing 250 million shares on the 9th February 2011. The Company is now seeking approval for the reinstatement of its securities to the ASX and the Board do not anticipate any problems in this respect.

NOTE 8 INVESTMENT IN ASSOCIATE

	2010 \$	2009 \$
50% shareholding interest in Narhex Life Sciences International Pty Ltd at cost	125,000	-
Share of net loss of associate for the half year ended 31 December 2010	<u>(118,050)</u>	<u>-</u>
As at 31 December	<u>6,950</u>	<u>-</u>

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 International Pty Limited. The Board has since repaid this loan after 31 December 2010.

Directors' Declaration

The directors of the Company declare that:

- (1) The attached financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date.
- (2) 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

A handwritten signature in black ink, appearing to read 'P. Christie', with a stylized flourish at the end.

Mr Peter Christie
Chairman

Perth
March 2011

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

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Narhex Life Sciences Limited and controlled entities (the consolidated entity) which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, the condensed statement of changes in equity, the condensed statement of cash flows for the half-year ended on that date, the accounting policies and other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Narhex Life Sciences Limited and controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

'value beyond numbers'

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Independence

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

Basis for Qualified Auditor's Conclusion

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

- The comparative figures in the financial report (as presented in both the 30 June 2010 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;
- The company had an associate entity in China (Xi'an Hex Life Sciences Co Ltd) during the review period. The company has adopted equity accounting in relation to this entity. We were unable to obtain sufficient appropriate audit evidence in relation to this entity. As a result, we were not able to perform review procedures in relation to the equity accounting adjustments that have been made in relation to this entity.

Qualified Auditor's Conclusion

Based on our review, which is not an audit, and except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in relation to the comparative information and its impact on the financial report, we have not become aware of any matter that makes us believe that the half-year financial report of Narhex Life Sciences Ltd is not in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.



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GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Vic.

9 March 2011