Narhex Life Sciences Ltd

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EXTRACT FROM PROSPECTUS DATED 17 JANUARY 2011

3.2 RETAINED ASSETS AND CONTINUING OPERATIONS

As noted above all of the assets of the Company were transferred to NLSI which is owned as to 50% by the Company and 50% by NLSD. The management of NLSI is governed by the NLSI Shareholders Agreement summarised in Section 7.2, which provides for the operational management of NLSI by NLSD. The Company will continue with the assets that reside in NLSI through financial contributions to NLSI as governed by the NLSI Shareholders Agreement.

As such, the continuing operations of the Company centre on the Company's ongoing investment in NLSI. The assets of NLSI for which the Company will contribute funds to NLSI are discussed in more detail below.

3.2.1 Chinese Joint Venture and Development of DG-17

The Company's primary focus has been 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.

Pre-clinical trials were conducted with positive results prior to the Company's initial listing. Funds were then raised for further clinical trials to achieve suitable medical approvals prior to commercial outcomes. Such approval process required included:

1. Ability to manufacture drug in suitable quantities to allow trials to take place.

   20 kilograms of DG-17 was successfully manufactured in and remains as asset of NLSI. The next stage of clinical trials may require the manufacture of new quantity of the drug – but NLSI now has that manufacturing capability.

2. Approval by medical ethics committees to approve the Phase II Trial design.

   This was achieved, and announced, during 2007 – though specific to Australian Phase II Trials that were planned at that point. However it indicates suitable Phase II Trial design, the majority of which will remain acceptable for planned clinical trials in China.

3. Establishment of a suitable Chinese Joint Venture within which would be included a research facility to conduct trials in China under approved Chinese trial designs.

In October 2006 the Company announced the registration of a joint venture with China Shaanxi Dacheng International Trade Co. Limited ("Dacheng"), to form Xi'an Hex Life Sciences Co Ltd, (the "Xi'an Hex Joint Venture").

Joint venture offices were established in China and key staff recruited. The Company's Director, Mr. Peter Nash, has remained in charge of this process since inception.

The Xi'an Hex Joint Venture has been working towards Chinese approvals to commence clinical trials, whilst also completing a building project on a leasehold parcel of land in the Xi'an High Tech Zone which includes a laboratory, warehouse and office space.

A summary of the Joint Venture Agreement is set out in **Section 7.3** of this Prospectus.

4. Approval by the Chinese Government for ongoing clinical trials

China was deemed the most suitable country to conduct clinical trials of DG-17 due to:

- the large population providing improved access to suitable numbers of patients for trial purposes;
- an immediate end market as a result of Government funded programs to supply HIV inhibitors to its affected population; and
- the substantially reduced cost of the trials.

Prior to the Company being placed in Administration the Xi'an Hex Joint Venture had nearly concluded negotiations in respect of pre-clinical trials with the State Food and Drug Administration ("**SFDA**"). However, the constraint of funds and consequent pressure on the Xi'an Hex Joint Venture, together with some changes to the approvals processes, has resulted in NLSI being required to enter into new negotiations to complete pre-clinical trials in China. These negotiations have commenced, and whilst the pre-clinical trials will repeat work already concluded in Australia, it will also allow an accelerated pathway through the clinical trial stages.

At this stage, the Xi'an Hex Joint Venture has a proposal from the Chinese Academy of Medical Sciences to conduct these pre-clinical trials.

Apart from the pre-clinical and clinical trial studies in China the following tasks are also to be finished for the declaration of DG-17 in China under the SFDA legislation:

a. Production and procurement of the starting raw material of DG-17 used in total synthesis;

b. Pharmaceutical studies of DG-17;

c. Non-clinical drug effect and safety evaluation studies of DG-17; and

d. Documentation and new drug declaration process.

5. Registration of patents to protect Intellectual Property

The Company has been granted patents for DG-17 and DG-35 (both held within NLSI through Narhex Limited, a company registered in Hong Kong). The jurisdictions in which the Company's anti-HIV drugs were protected include Australia, Canada, China, European Union, Japan, Korea, Mexico, New Zealand, Philippines, Taiwan and the United States. Many of these patents have been allowed to lapse, but the company retains the key patent in China, as well as patents in other countries.

A full report on the Intellectual Property held by Narhex Limited is set out in **Section 6** of this Prospectus.

The Company believes that NLSI's ongoing interest in the Xi'an Hex Joint Venture is the key asset of the group, and a significant portion of the funds to be raised through this prospectus are to be spent on the Company retaining its interest in NLSI.

3.2.2 Cavidi

In April 2006 the Company purchased the assets of Cavidi Tech AB, a Swedish biotechnology company, renaming it Cavidi AB. Cavidi AB is developing and selling viral load diagnostic products under the ExaVir brand, for HIV monitoring of treated or to be treated HIV patients. The flagship product is ExaVir Load, a robust, inexpensive assay for measuring HIV in patients and thereby assessing the efficacy of the HIV inhibitor that the patient may be prescribed – such that as the efficacy wanes, the patient may be prescribed an alternative HIV inhibitor. The product measures the amount of HIV in plasma – the "viral load" – and is essential for good management of HIV-infected patients, especially those receiving anti-HIV drugs (antiretroviral drugs).

The initial failure of sales to grow as strongly as planned, lead to a dilution in the Company's shareholding when Cavidi AB issued new shares to a group of investors including a US Venture Capital Fund and Cavidi AB staff. The ongoing need for Cavidi AB to access funding to maintain and develop its sales and marketing efforts in Africa and Eastern Europe further diluted the Company's equity in Cavidi AB to approximately 9%.

The World Health Organization (**WHO**) has recently recommended the use of accurate and regular tests to measure the HIV viral load as a means of improving treatment for patients with HIV. There is therefore a growing need for accurate tests that are

cost efficient and easy to use. Cavidi AB's ExaVir Load Version 3 meets these needs, and, as a result, Cavidi expects sales to increase. To this end, Cavidi AB is aggressively investigating third party license agreements for product development and distribution to leverage the company's technology platform in the most promising markets.

It is NLSI's intent to maintain its equity in Cavidi AB.

3.3 FUTURE OPERATIONS

As noted above, pursuant to the DOCA, a new entity NLSI was formed into which the Company transferred all of its assets, being its shareholding in Xian Hex Life Sciences Company Limited, Narhex Limited and Cavidi AB. The Company currently owns 50% of NLSI.

As detailed in the NLSI Shareholders Agreement (summarised in **Section 7.2** of the Prospectus), the principal business activities of NLSI will be:

(a) Retention of its interest in the Xi'an Hex Joint Venture, to pursue:

- approval of DG-35 and its pro-drug DG-17 for use in China; and
- commercialisation of DG-35 and its pro-drug DG-17.

(b) Retention of its investment in Cavidi AB.

The principal business interest of the Company will be to support the funding requirement, together with NLSD, of NLSI. The funds to be raised through the recapitalisation process will therefore be utilised to fulfill the Company's obligations under the NLSI Shareholders Agreement for the above purposes, as well as the examination of alternative and additional investment opportunities.

3.4 INVESTMENT OPPORTUNITIES

A portion of the Company's assets will be comprised of cash. As such, disclosure is required regarding the expertise of the current Directors and more specifically, how this level of expertise will assist the Company in making investment decisions.

The Directors have a broad range of commercial and public company experience. The Directors also have broad experience in project development, finance and corporate transactions for various listed and non-listed entities, which will be relevant to the assessment of potential projects for the Company. The Directors consider that their contacts and relevant experience will provide assistance in attracting and securing new projects for investment and acquisition.

The Directors are committed to the highest standards of corporate governance and they will make themselves readily available to meet the requirements of the

Company and its operations going forward. The Board will ensure that they devote sufficient time, attention and skill to the duties of this position and the Company's business.

Other than the proposed expenditure budget detailed in **Section 3.5**, and the development of the existing business in **Section 3.2** above, there is no specific investment plan currently in place regarding the Company's future intentions. Investment strategies may be adopted as and when suitable opportunities are identified by the Board. The Company may be subject to additional risks in the future relating to these investments that cannot be identified as at the date of this Prospectus.

3.5 EXPENDITURE BUDGET

In summary, the Company proposes to apply the funds raised from the Offer as set out below in relation to funding the Company's development of its existing technology, providing funding for the identification of other business opportunities and the expenses of the Offer and the recapitalisation of the Company.

Maximum Subscription

Use of Funds – Expenditure Budget	Year 1	Year 2	Total
Ongoing equity contributions under NLSI Shareholders Agreement for the development of DG-17 and Cavidi AB	$500,000	$750,000	**$1,250,000**
Identification and consideration of other business opportunities	$200,000	$100,000	**$300,000**
Repayment of Loan from Tittel	$125,000	-	**$125,000**
Expenses associated with the Offer and Recapitalisation Proposal	$612,500	-	**$612,500**
General working capital	$92,500	$120,000	**$212,500**
Total Funds Utilised	**$1,530,000**	**$970,000**	**$2,500,000**

Minimum Subscription

Use of Funds – Expenditure Budget	Year 1	Year 2	Total
Ongoing equity contributions under NLSI Shareholders Agreement for the development of DG-17 and Cavidi AB	$500,000	$500,000	**$1,000,000**
Repayment of Loan from Tittel	$125,000	-	**$125,000**
Identification and consideration of other business opportunities	$75,000	$75,000	**$150,000**
Expenses associated with the Offer and Recapitalisation Proposal	$582,500	-	**$582,500**
General working capital	$67,500	$75,000	**$142,500**
Total Funds Utilised	**$1,350,000**	**$650,000**	**$2,000,000**

On completion of the Offer the Directors believe the Company will have adequate working capital to meet its stated objectives.