

Appendix 4D

HALF-YEAR REPORT FOR THE PERIOD ENDING 31 DECEMBER 2011

1. Name of entity

NARHEX LIFE SCIENCES LIMITED

ABN	Reporting Period	Previous Corresponding Period
51 094 468 318	Half year ended 31 December 2011	Half year ended 31 December 2010

2. Results for Announcement to the Market

Financial Results				\$A
Revenues from ordinary activities (<i>item 2.1</i>)	Up	65 %	to	35,747
Profit/(Loss) from ordinary activities after tax attributable to members (<i>item 2.2</i>)	Up	19 %	to	(275,079)
Net (loss) for the period attributable to members (<i>item 2.3</i>)	Up	19 %	to	(275,079)
Final and interim dividends (<i>item 2.4</i>)	It is not proposed that either a final or interim dividend be paid .			
Record date for determining entitlements to the dividend (<i>item 2.5</i>)	N/A			
Brief explanation of any of the figures reported above (<i>item 2.6</i>):	The loss for the period includes expenses relating to administration expenses and employee benefits. Refer attached Interim Financial Report for additional details.			

3. NTA Backing

	Current Period	Previous Corresponding Period
Net tangible assets per ordinary share (<i>Item 3</i>)	0.36 cents	(0.07) cents

4. Control gained over entities

Details of entities over which control has been gained or lost (<i>item 4</i>)	There has been no change to the subsidiaries during the period.
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5. Dividends paid and payable

Details of dividends or distribution payments (<i>item 5</i>)	No dividends or distributions are payable.
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6. Dividend reinvestment plans

Details of dividend or distribution reinvestment plans (<i>item 6</i>)	There is no dividend reinvestment program in operation for Narhex Life Sciences Limited
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7. Details of associates

Details of associates and joint venture entities (<i>item 7</i>)	Narhex Life Sciences Limited has a 50% interest in Narhex Life Sciences International Pty Ltd .
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8. Foreign entities

Foreign entities to disclose which accounting standards are used in compiling the report (<i>item 8</i>)	N/A
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9. Review Opinion

Details of any audit dispute or qualification (<i>item 9</i>)
<i>Basis for Qualified Auditor's Conclusion</i> The company holds a 50% interest in Narhex Life Sciences International Pty Ltd, which in turn holds a 75% interest in Xi'an Hex Life Sciences Limited (incorporated in China). The interest in Narhex Life Sciences International Pty Ltd is accounted for as an associate for the reasons described in Note 8 of the 31 December 2011 Half-year report attached. The financial reports of Narhex Life Sciences International Pty Ltd and Xi'an Hex Life Sciences Limited were not audited, and we were not able to obtain audit evidence in relation to the financial reports of these entities by other means, and the impact (if any) on the following account balances: • Share of net profit or loss of associated entity • Investment in associated entity

Narhex Life Sciences Limited

ABN 51 094 468 318

Financial Report
for the half year ended 31 December 2011

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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 3. The directors’ report is not part of the financial statements.

Directors

Mr Peter Nash (Director) (*appointed 7 October 2004*)

Mr David Mandel (Director) (*appointed 16 October 2009, resigned on 28 January 2010 and reappointed 17 May 2010*)

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

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

Joint Company Secretary

Ms Nicki Farley (*resigned 30 January 2012*)

Ms Paige Exley (*appointed 30 January 2012*)

Registered and Principal Office

Level 24, 44 St Georges Tce,
PERTH WA 6000

Auditors

Nexia ASR
Level 18, 530 Collins Street,
MELBOURNE VIC 3000

Share Registry & Register

Link Market Services Ltd
Level 2, 178 St Georges Tce
PERTH WA 6000

Solicitors

Price Sierakowski Corporate
Level 24, 44 St Georges Tce
PERTH WA 6000

Bankers

National Australia Bank
100 St Georges Tce
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.narhex.com.au

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 2011.

On 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 subsequently reinstated to trading on the 14 March 2011 after removal of the Administrators through the effectuation of a Deed of Company Arrangement.

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 (Director) (*appointed 7 October 2004*)

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

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

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

Executive functions have been carried out by Mr Peter Nash and Mr. Simon Lill.

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 2011 was \$275,079 (2010: loss \$231,810).

Directors' report

Review of Operations

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.

Hall Chadwick was appointed as Administrators to the Company on 9 February 2010, and the Company was reinstated to trading on the 14 March 2011 after removal of the Administrators through the effectuation of a Deed of Company Arrangement.

The Company's Joint Venture with Xi'an Hex, managed through its 50% interest in Narhex Life Sciences International Limited ("NLSI") has continued with ongoing development work with the HIV inhibitor drug, DG-17.

The highlights for the period to 31 December 2011 include the following:

- The Chinese Academy of Medical Science that are managing the research program have suggested an alternative route to synthesise DG 17 which should result in a reduced manufacturing cost;
- Pre-clinical trials on animals are expected to commence shortly and to take approximately 12 months to achieve approval before commencing clinical trials on humans.
- Extension of an option agreement to acquire a coal tenement interest in central Queensland
- The establishment of 3 new option agreements to acquire 4 additional coal tenements in Queensland

Future developments

The company presently intends to continue to focus upon its principal activity and capitalise upon other opportunities as and when they arise. It also plans to continue its review of the coal tenements over which it holds options and has recently commissioned a further more detailed report from Moultrie Database and Modeling, Independent Geologists with suitable knowledge and skills in this area.

Subsequent events

There are no events subsequent to the reporting date of 31 December 2011 that have not been disclosed.

Dividends

No dividend has been proposed or paid.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of this report.

Signed in accordance with a resolution of the directors



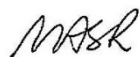
Mr Peter Christie
Chairman

Perth
29 February 2012

**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 2011, 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
A.B.N. 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne

29 February 2012

**Statement of comprehensive income
for the half year ended 31 December 2011**

	Note	December 2011 \$	December 2010 \$
Interest revenue		35,747	-
Administration expenses		(155,846)	(110,612)
Employee benefits expense		(154,700)	-
Finance costs		(280)	(3,148)
Share of net loss of associate	8	-	(118,050)
Loss before income tax		(275,079)	(231,810)
Income tax benefit		-	-
Net loss for the half year from continuing operations		(275,079)	(231,810)
Discontinued Operation			
Gain from discontinued operation after tax		-	-
Loss for the half year		(275,079)	(231,810)
Other comprehensive income		-	-
Comprehensive income for the half year		(275,079)	(231,810)
From continuing and discontinued operations			
Earnings per share (basic and diluted) (cents)	4	(0.1)	(0.3)
From continuing operations			
Earnings per share (basic and diluted) (cents)	4	(0.1)	(0.3)

**Statement of financial position
as at 31 December 2011**

		31 December 2011 \$	30 June 2011 \$
CURRENT ASSETS			
Cash and cash equivalents		1,356,947	1,640,178
Trade and other receivables		66,216	50,196
Prepayments		24,736	-
Total Current Assets		1,447,899	1,690,374
NON-CURRENT ASSETS			
Exploration expenditure	9	217,399	60,000
Total Non-Curent Assets		217,399	60,000
Total Assets		1,665,298	1,750,374
CURRENT LIABILITIES			
Trade and other payables		113,331	16,213
Total Current Liabilities		113,331	16,213
Total Liabilities		113,331	16,213
Net Assets		1,551,967	1,734,161
EQUITY			
Issued capital	5	2,623,029	2,623,029
Reserves	6	111,058	18,173
Accumulated losses	4	(1,182,120)	(907,041)
Total Equity / (Deficiency)		1,551,967	1,734,161

**Statement of changes in equity
for the half year ended 31 December 2011**

	Fully paid ordinary shares \$	Equity-settled benefits reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2010	13,259,713	-	(13,639,589)	(379,876)
Loss for the period	-	-	(231,810)	(231,810)
Total recognised income and expense	-	-	(231,810)	(231,810)
Consolidation of capital	(13,259,713)	-	13,259,713	-
Issue of fully paid ordinary shares	480,000	-	-	480,000
Balance at 31 December 2010	480,000	-	(611,686)	(131,686)
Balance at 1 July 2011	2,623,029	18,173	(907,041)	1,734,161
Loss for the period	-	-	(275,079)	(275,079)
Total recognised income and expense	-	-	(275,079)	(275,079)
Share based payments	-	92,885	-	92,885
Issue of fully paid ordinary shares	-	-	-	-
Balance at 31 December 2011	2,623,029	111,058	(1,182,120)	1,551,967

**Statement of cash flows
for the half year ended 31 December 2011**

	Note	December 2011 \$	December 2010 \$
Cash flows from operating activities			
Cash payments in the course of operations		(211,299)	(448,938)
Interest received		35,747	-
Interest paid		(280)	-
Net cash flows used in operating activities		<u>(175,832)</u>	<u>(448,938)</u>
Cash flows from investing activities			
Payments for exploration expense	9	<u>(107,399)</u>	-
Net cash flows used in investing activities		<u>(107,399)</u>	-
Cash flows from financing activities			
Proceeds from the issue of shares		-	480,000
Payments for share issue costs		-	-
Net cash flows provided by financing activities		<u>-</u>	<u>480,000</u>
Net increase/(decrease) in cash and cash equivalents		(283,231)	31,062
Cash and cash equivalents at the beginning of the half year		1,640,178	9,993
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		<u>1,356,947</u>	<u>41,055</u>

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 2011 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 2011 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 2011.

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

	December 2011 \$	December 2010 \$
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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:	(275,079)	(231,810)
Net loss for the half year attributable to ordinary equity holders (used in calculating diluted EPS) – continuing operations:	(275,079)	(231,810)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share adjusted for share consolidation	430,117,350	68,813,002

NOTE 5 ISSUED CAPITAL

	No	December 2011 \$
Fully paid ordinary shares and authorised capital		
Balance at beginning of the financial period	430,117,350	2,623,029
Issue of fully paid ordinary shares at	-	-
Balance at the end of the financial period	430,117,350	2,623,029

NOTE 6 RESERVES

	December 2011 \$	June 2011 \$
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The share-based payment reserve represents unissued capital in respect of the company's issued unlisted options

Share based payment reserve	(111,058)	(18,173)
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For further details concerning the company's unlisted options refer to note 7 share-based payments.

Notes to the financial statements

NOTE 7 SHARE-BASED PAYMENTS

The company has the following unlisted options, all of which were issued on 14 July 2011.

Name	Reason for the issue of the options	Number	Exercise price	Option Valuation	Expiry date
Peter Christie	Directors' fees	2,500,000	2 cents	\$52,500	14 July 2014
David Mandel	Directors' fees	2,500,000	2 cents	\$52,500	14 July 2014
Peter Nash	Directors' fees	2,500,000	2 cents	\$52,500	14 July 2014
Subtotal		7,500,000			
John Majewski*	Technical and corporate consultancy services in relation to the Company's technology and recapitalisation	2,500,000	2 cents	\$52,500	14 July 2014
Total		10,000,000		\$210,000	

*John Majewski, the original founder of the company is a significant shareholder of Narhex Life Sciences Limited.

The fair value of each parcel of options granted on 7 June 2011 and issued on 14 July 2011 is \$52,500 of which the following portion, in accordance with the option's vesting conditions was expensed to the profit and loss for the period ending 31 December 2011:

- \$92,885 for Share based payment expense

In determining the fair value according to the Black-Scholes Option Pricing Model for each parcel of options issued on 14 July 2011 the following assumptions and inputs (in addition to those noted above) were relevant:

- The options cannot be exercised for an escrow period being 12 months after the date of issue and before the options can be exercised the Company's shares must trade at a minimum price of 5 cents per share for a minimum of 10 consecutive trading days after the expiry of the escrow period;
- If the options are all exercised the share capital of the company would dilute by approximately 1.71%;
- The share market price for Narhex Life Sciences Limited for the 3 month period prior to the granting of the options was the following:
 - Highest value on 19 May 2011 - 3.5 cents
 - Lowest value on 18 March 2011 – 1.6 cents
 - Share price on grant date – 3 cents
- Volatility was estimated at 100% for the company future price movement; and
- A risk-free rate of 4.92% for the government 3-year bond rate at 25 May 2011

Notes to the financial statements

NOTE 8 INVESTMENT IN ASSOCIATED ENTITY

	December 2011 \$	June 2011 \$
50% shareholding interest in Narhex Life Sciences International Pty Ltd at cost	-	-
Share of net loss of associate	-	-
As at 31 December	-	-

Narhex Life Sciences International Pty Ltd is involved in ongoing research and commercial development of drugs for the treatment of HIV / AIDS. As at 31 December 2011, Narhex held a 50% (2010: 50%) voting interest non-controlling of the associated entity:

Under the Shareholder's Agreement setting out the ownership interest in Narhex Life Sciences International Pty Ltd, the Company will be required to contribute capital of up to \$500,000 once the other shareholder has contributed capital of \$500,000. Should this event arise, the Company can elect to:

- Make its contribution and retain its interest;
- Not make its capital contribution and have its interest diluted as the other shareholder will have the capacity to increase its interest in Narhex Life Sciences International Pty Ltd through acquisition of the Company's shares and further investment in Narhex Life Sciences International Pty Ltd.

NOTE 9 EXPLORATION EXPENDITURE

On 19 May 2011 the Company entered into an option agreement to purchase coal tenements in Central Queensland being EPCA 2303 and EPCA 2304 for an option fee of \$60,000 (2010: \$nil). The parties have agreed deeds of variation to the option agreement to extend the option period from initially 19 September 2011 to 31 December 2011 (for nil consideration) and a further extension to 30 June 2012. This current extension is in exchange for an extension fee of \$50,000, which is to comprise part of the ultimate purchase price if the option is exercised before 30 June 2012.

If the option is exercised, total consideration for the purchase will be \$2,000,000, which may be settled by a combination, to be determined, of cash (up to a maximum of \$1,000,000) and through shares (up to a million shares at 2 cents a share). The option agreement is subject to certain approvals including but not limited to, ministerial, ASX and shareholder approvals to complete the acquisition. ASX approvals will include re-compliance with Chapters 1 and 2 of the ASX Listing Rules due to a change in the nature and scale of the Company's activities.

On 24 November 2011, the Company entered into 3 additional option agreements over 4 tenements in Queensland considered prospective for coal.

The option agreement for Queensland exploration permit coal application (EPCA) 2769 ("Glastonbury") was entered into with the vendor, Coldplay Pty Ltd. The option period for this agreement is for a period of 6 months from the time the EPCA is granted, which is anticipated in the first half of 2012. The payment to the vendor for entering into this option with the Company is \$35,000. The total consideration for the purchase of the tenement will be payable by the Company to the vendor as follows:

- the Exercise Price of \$250,000 at Settlement, followed by the potential issue of:
- 50,000,000 Shares at a deemed issue price of \$0.025 per Share upon the Company identifying an inferred JORC resource level of 50,000,000 tonnes of commercial specification coking coal, or 200,000,000 tonnes of commercial specification thermal coal;
- 50,000,000 Shares at a deemed issue price of \$0.025 per Share upon the Company identifying an indicated JORC resource level of 100,000,000 tonnes of commercial specification coking coal or 200,000,000 tonnes of commercial specification thermal coal; and

Notes to the financial statements

- 50,000,000 Shares at a deemed issue price of \$0.025 per Share upon the Company identifying an indicated JORC resource level of 200,000,000 tonnes of commercial specification coking coal or 300,000,000 tonnes of commercial specification thermal coal.

The option agreement for EPCA 2771 (the “Moonie Project”) is also entered into with the vendor Coalplay Pty Ltd with an option fee of \$35,000. The option period for this agreement is for a period of 6 months from the time the EPCA is granted, which is anticipated in the first half of 2012.

The total consideration for the purchase of the Tenement will be payable by the Company to the Vendor as follows:

- the issue of 16,666,668 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an inferred JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade;
- the issue of 16,666,666 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an indicated JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade; and
- the issue of 16,666,666 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an inferred JORC resource level of 200,000,000 tonnes of commercial specification thermal coal or coal of a better grade.

An option agreement for the tenements EPCA 2600 and EPCA 2601 has been entered into with the vendor BBY Coal Pty Ltd and are located in the region of the Company’s existing optioned tenements EPCA 2303 and EPCA 2304. The option fee paid to the vendor was \$35,000, the option period is for a period of 6 months from the time the EPCA’s are granted, which is anticipated in the first half of 2013. The total consideration for the purchase of the tenements will be payable by the Company to the vendor as follows:

- the issue of 8,333,334 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an inferred JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade;
- the issue of 8,333,333 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an indicated JORC resource level of 100,000,000 tonnes of commercial specification thermal coal or coal of a better grade; and
- the issue of 8,333,333 Shares at a deemed issue price of \$0.04 per Share upon the Company identifying an indicated JORC resource level of 200,000,000 tonnes of commercial specification thermal coal or coal of a better grade.

The option agreements are subject to certain approvals including but not limited to, ministerial, ASX and shareholder approvals to complete the acquisition. ASX approvals will include re-compliance with Chapters 1 and 2 of the ASX Listing Rules due to a change in the nature and scale of the Company’s activities.

	December 2011 \$	June 2011 \$
Exploration expenditure reconciliation		-
Opening balance	60,000	-
Exploration expenditure incurred	157,399	60,000
Closing balance	217,399	60,000

NOTE 10 CONTINGENT LIABILITIES

As at 31 December 2011 the Company had no known contingent liabilities.

NOTE 11 SUBSEQUENT EVENTS

There are no events subsequent to the reporting date of 31 December 2011 that have not been disclosed.

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 2011 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



Mr Peter Christie
Chairman

Perth
29 February 2012

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

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Narhex Life Sciences Limited (the company) which comprises the condensed statement of financial position as at 31 December 2011, the condensed statement of comprehensive income, condensed statement of changes in equity, condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 Narhex Life Sciences Limited's financial position as at 31 December 2011 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, 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.

Matters Relating to Electronic Publication of the Audited Financial Report

This review report relates to the financial report of Narhex Life Sciences Limited for the half-year year ended 31 December 2011 which may be included on the website of Narhex Life Sciences Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of the financial report are concerned with the inherent risk arising from publication on a website, they are advised to refer to the hard copy of the reviewed financial report to confirm the information contained in this website version of the financial report.

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 2001*, which has been given to the directors of Narhex Life Sciences Limited on 29 February 2012, would be in the same terms if provided to the directors as at the time of this auditor's review report.

Basis for Qualified Auditor's Conclusion

The company holds a 50% interest in Narhex Life Sciences International Pty Ltd, which in turn holds a 75% interest in Xi'an Hex Life Sciences Limited (incorporated in China). The interest in Narhex Life Sciences International Pty Ltd is accounted for as an associate for the reasons described in Note 8.

The financial reports of Narhex Life Sciences International Pty Ltd and Xi'an Hex Life Sciences Limited were not audited, and we were not able to obtain audit evidence in relation to the financial reports of these entities by other means, and the impact (if any) on the following account balances:

- Share of net profit or loss of associated entity
- Investment in associated entity

Conclusion

Based on our review, which is not an audit, 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 company's associate entity and its subsidiary, we have not become aware of any matter that makes us believe that the half-year financial report of Narhex Life Sciences Limited is not in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of the company's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*.



NEXIA ASR
A.B.N. 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne

29 February 2012