



Narhex Life Sciences Ltd

141 Osbourne St, South Yarra, VIC

Australia 3141

V: +61-3-9279-3966

F: +61-3-9279-3955

ABN: 51 094 468 318

www.narhex.com

24 November 2005

Dear Shareholder,

I would like to give you an update on Narhex Life Science's progress in developing its anti-HIV protease inhibitor prodrug, DG17, since I last wrote to you in October.

The Annual General Meeting (AGM) was held in Melbourne last Friday, and although there were a number of questions to shareholders, the Board and I were pleased that all the resolutions passed and that shareholders appeared satisfied with the progress that the company has made in recent months.

Clinical Trials:

Members of the new Scientific Advisory Board met on 28th October for the first time, along with several of our technical advisors. The outcome of that meeting was a well-refined pharmacokinetic protocol to assess the impact of gastric acid on DG17 absorption, and to determine whether co-administration with ritonavir will "boost" and prolong DG35 drug levels by slowing its metabolism. This protocol was submitted to the Alfred Hospital Ethics Committee last week, for review at their December meeting. I am optimistic that these studies will provide us with a dosage form of DG17, which can be used in subsequent clinical studies focused on drug efficacy.

We are pleased to announce we have established a long-term relationship with Kendle, an international organization with broad expertise in pharmaceutical development. They have completed a review of the existing preclinical and clinical data available for DG17, and have made preliminary recommendations for the preclinical testing which will be required to satisfy the Australian Therapeutic Goods Administration (TGA), the US Food and Drug Administration (FDA) and similar regulatory authorities elsewhere.

As announced by our Executive Chairman at the AGM we intend to conduct any clinical trials to first world standards because this is prudent and the cost of such a process is no more than conducting them to a lesser standard. We anticipate starting some of these studies early next year, with the aim of having a meeting with the FDA and TGA in Q2/Q3 of next year to obtain written, explicit advice about what further studies they will require. I believe this will materially advance the prospect and process of gaining Chinese approval to conduct Phase 2 clinical trials, which will be needed to develop our drug in China.



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Drug Manufacture:

We have made further progress in identifying key pharmaceutical chemical manufacturers that can make the large quantities of DG17 required for late stage clinical trials and for sale of the drug when it is registered for marketing. We have received indicative pricing for a key intermediate in the manufacture of DG17 which is substantially less than anticipated, and this will have a favorable impact on the price of the final product (i.e. reducing the "cost of goods"). Such an achievement is of critical importance for us to succeed in markets in countries with emerging economies.

We have also received one quote for manufacturing the final product. With the assistance of Dr John Devlin, a Brisbane consultant with decades of experience in the manufacture of pharmaceutical chemicals, we will be seeking additional quotations for synthesis of DG17, and expect to have identified the best sources for the product and to have firm contracts with them by February next year. *Establishing the clinical-scale manufacturing of DG17, and the cost of goods, will be a major milestone for Narhex.*

China Issues:

Mr Peter Nash, the Executive Director for China Operations, returned from China about 10 days ago and has made substantial progress in negotiating a Term Sheet with our Chinese collaborators, CMC Dacheng and Hanjiang Pharmaceuticals. He will be returning to China with the Chairman, Dr Michael Cohen, in the next few weeks with the intention of moving us much closer to forming a joint venture company with Dacheng and Hanjiang.

Comprehensive information about DG17 has been sent to Dacheng's consultant expert, Prof Sun, who is reviewing the information to determine whether it will be satisfactory to the Chinese regulatory authorities (SFDA).

Sincerely yours,

Prof John Mills
Managing Director