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Dear Narhex Shareholder,

The past several months have seen exciting changes and exceptional progress in the development of your company as a fully integrated biotechnology company.

Cavidi AB Purchase:


Headquarters of Cavidi AB in Uppsala, Sweden

The most significant of these changes is Narhex's recent purchase of the key assets of Cavidi Tech AB, a Swedish diagnostic company which has developed, and is now manufacturing and selling, a kit which is used to measure "HIV viral load" (the amount of HIV in plasma) in HIV-infected patients. Although there are several other manufactures making such kits, Cavidi's is the only test kit which is sufficiently simple and sufficiently inexpensive to be useful in the developing world – where most of the world's HIV patients are located.

In Westernized countries such as Australia, treatment ("antiretroviral therapy") has been readily available for HIV-infected patients since 1987, and potent combination antiretroviral therapy ("Highly-Active Antiretroviral Therapy or HAART") has been available since the mid-1990's. HIV specialists such as myself use two key tests to assess whether HIV-infected patients need therapy and to assess the effectiveness of the treatment selected:

- The CD4 lymphocyte count; and
- Measurement of the HIV viral load.

HIV-infected patients in Australia and other developed countries, whether on treatment or not, would usually have these tests performed 4-6 times per year.

Recently, HAART became more widely available for HIV patients in the developing world as a result of charities (such as the Gates and Clinton Foundations, Médecins Sans Frontières [MSF] and others) and first world governments making funds available to provide treatment for the rapidly-increasing numbers of HIV patients in Africa, Asia and South America. Some emerging economies, such as Brazil and Thailand, have also been making HAART much more widely available to their poor populations. With this treatment comes the need for simple, low-cost tests to monitor those patients before and during therapy.


Cavidi AB Research & Development Lab

The Cavidi viral load test, ExaVir® Load, was developed to serve patients in resource-constrained environments and was first marketed in 2004. Sales during calendar year 2005 were SEK5.1M (A$0.9M). Cavidi also manufactures test kits used for laboratory studies of HIV and similar viruses as well as a kit which assess whether HIV strains are resistant to two common antiretrovirals (nevirapine and efavirenz). Total sales revenue for 2005 was SEK8.3M (A$1.5M).


Cavidi Production Facilities

I visited Cavidi in mid-April with Dr Michael Cohen (Narhex Executive Chairman) and Mr Ron Hodge (a non-executive director). It is fair to say that we were delighted with what we found at Cavidi. Their facilities and staff are excellent, and they have very satisfactory production facilities. We considered the reason for the company's failure was because of a lack of resources and commitment to an effective sales and marketing function. For those reasons we have decided to re-form the company in its current location, and to re-employ key staff with a focus on improving the marketing and sales effort with a much smaller commitment to product research and development until sales targets have been met.

We believe that in time our purchase of the assets of Cavidi Tech AB for US$350,000 will be seen as a financial coup for the company and one which helped transform Narhex into the world's leading third-world HIV diagnostic and therapeutics company.

Cavidi AB Directors Dr Michael Cohen, Managing Director Martyn Eales, Dr Clas Kallendar &.Executive Chairman Prof John Mills in the Cavidi laboratories in Uppsala

During our visit we appointed Martyn Eales, the former Director of Sales, as the new company's Managing Director. Martyn will also continue his role as head of sales for the immediate future. I am Executive Chairman of the Cavidi AB Board, with Dr Cohen, Martyn Eales and Dr Clas Kallendar (a founding scientist) as non-executive Directors.

Drug Development:

We have also made good progress with our studies of Narhex's HIV protease inhibitor pro-drug, DG17. The first of our scheduled clinical trials, which was designed to assess whether degradation by gastric acid was part of the explanation for the variable absorption seen in earlier studies, gave us some very positive information, which has already been announced. The data showed that both the peak levels of DG35 (the active protease inhibitor), or the total amount absorbed were significantly increased by adding an antacid to DG17 to block stomach acid effect. In fact absorption was increased by about 50%. Perhaps even more important, antacid administration increased the consistency of absorption by over 3-fold. These data means that some of the problems with DG17 dosing can be overcome by simply "enteric coating" the drug – an inexpensive, commonly-used procedure to protect drugs from gastric acid.

The second clinical trial, to assess whether DG35 blood levels can be "boosted", and the frequency of administration lengthened (e.g. from 2-3 times/day to once or twice daily) by giving DG17 with a small amount of another protease inhibitor, ritonavir, were completed last week and the laboratory data are pending. We anticipate a favorable outcome to these studies, but it obviously isn't guaranteed.

The process of moving manufacture of DG17 from a laboratory scale (where milligram or gram quantities are made) to industrial scale (where thousands of kilograms are made) is progressing nicely at Dr Reddy's in Hyderabad, India. I visited Hyderabad early last month with our pharmaceutical chemist consultant. I was extremely impressed with both the facilities and staff expertise. Dr Reddy's will produce 200gm of cGMP-grade DG17 for our proof-of-concept study by mid-2006, exactly on schedule. We are planning

to make the 50-70kg of DG17, required for a full Phase II trial in China, later in 2006.

Now that a production-scale manufacturing process has been developed, I am working with our pharmaceutical chemist consultant to obtain refined estimates of the "cost of goods" – i.e. what manufacturing of DG17 is likely to cost if made in hundreds of thousands of ton quantities. This is a critical value, as if we are to compete in developing country markets especially, our cost of goods must be low enough to compete with other generic antiretrovirals, which currently cost US$200-600 per patient per year. This information should be available this quarter.

Drug Trials in China:

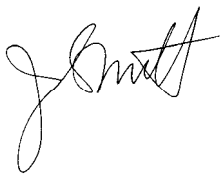
Our discussions with Dacheng in China regarding a Narhex joint venture are progressing nicely.

We expect to be able to announce a definite arrangement in the near future. We also expect that China will be a very large market for the Cavidi ExaVir® Load assay, and we anticipate that we will be able to use our joint venture to market, and possibly to also finish manufacture, the Cavidi assay system for Chinese use.

Shortly we expect to announce arrangements that are currently being negotiated to enable training of suitable Chinese laboratories to allow them to undertake viral load testing using the range of Cavidi products which have been developed for this purpose.

Please don't hesitate to contact me at Narhex if you have any questions.

Sincerely yours,



Prof John Mills
Managing Director

About Narhex Life Sciences
Narhex Life Sciences Limited (ASX: NLS) is an Australian biotechnology company which is developing an anti-HIV protease inhibitor pro-drug, DG17. Narhex has recently acquired a wholly-owned Swedish subsidiary, Cavidi AB, which is marketing a low-cost, low-technology test kit which is used to measure the amount of HIV in plasma ("HIV viral load"), a measurement which is virtually essential for treating patients with HIV infection.