

NARHEX LIFE SCIENCES LIMITED

ACN 094 468 318

NON-RENOUNCEABLE RIGHTS ISSUE PROSPECTUS

For a non-renounceable pro rata offer of 32,275,332 shares to be issued at a price of \$0.05 (5 cents) per share on the basis of 1 new share for every 5 existing shares held as at 5.00pm on 17 April 2007 to raise up to \$1,613,767.

**THIS OFFER CLOSSES AT 5.00PM EST ON 18 MAY 2007
VALID ACCEPTANCES MUST BE RECEIVED BEFORE THAT TIME.
Please read the instructions in this Prospectus and on the accompanying Entitlement and
Acceptance Form regarding the acceptance of your entitlement.**

**Issue Manager to the Rights Issue
INTERSUISSE LIMITED
AFSL 246827**

IMPORTANT NOTICE

This is an important document and should be read in its entirety. If, after reading this Prospectus, you have any questions about the securities being offered under this Prospectus or any other matter, you should consult your stockbroker, accountant or other professional adviser.

The securities offered by this Prospectus should be considered as speculative.

Important Information

This Prospectus is dated 5 April 2007 and was lodged with ASIC on that date. New Shares issued pursuant to this Prospectus will rank equally with all Existing Shares. The expiry date of this Prospectus is that date which is 13 months after the date of this Prospectus. No New Shares will be allotted or issued on the basis of this Prospectus after that expiry date.

You should read this Prospectus in its entirety before deciding whether to accept the Offer in accordance with the instructions in the accompanying Entitlement and Acceptance Form. In particular, it is important that you consider section 7 (Risk Factors). Please read carefully the instructions on the accompanying Entitlement and Acceptance Form regarding the exercise of your Rights. If you have any questions, you should seek professional advice from your stockbroker, accountant or other professional adviser. By accepting the Offer, each Eligible Shareholder acknowledges that they have received and read this Prospectus.

In making representations in this Prospectus, regard has been had to the fact that the Group is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

ASIC and ASX take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Prospectus Availability

A copy of this Prospectus can be provided electronically, or in hard copy, by Narhex Life Sciences. Please contact the Company Secretary at mgarbutt@krcc.com.au for a copy of this Prospectus.

The Corporations Act prohibits any person passing onto another person an Entitlement and Acceptance Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus.

Neither this Prospectus, nor the accompanying Entitlement and Acceptance Form, may be sent to Shareholders or investors outside Australia or New Zealand or otherwise distributed outside Australia or New Zealand.

Australia and New Zealand

This Prospectus contains an offer to Eligible Shareholders of continuously quoted securities (as defined in the Corporations Act), and has been prepared in accordance with section 713 of the Corporations Act. In making the offer to Eligible Shareholders in New Zealand, Narhex Life Sciences is relying on the *Securities Act (Overseas Companies) Exemption Notice 2002 (NZ)*, by virtue of which this Prospectus is not required to be registered in New Zealand.

Foreign Jurisdictions

This Prospectus has been prepared to comply with the requirements of the securities laws of Australia and New Zealand. The Rights Issue is not being extended to any Non-Qualifying Foreign Shareholders. This Prospectus does not constitute an Offer in any place in which, or to any person to whom, it would not be lawful to make such an Offer. No action has been taken to register the New Shares, the Rights or this Prospectus, or otherwise permit an offering of the New Shares or the Rights, in any jurisdiction outside Australia or New Zealand.

The distribution of this Prospectus outside Australia and New Zealand may be restricted by law. Any person who comes into possession of this Prospectus (including trustees, custodians and nominees) should observe any such restrictions and should seek advice on such restrictions. Any non-compliance with restrictions may contravene applicable securities laws.

Disclaimer

No person is authorised to give any information, or make any representation, in connection with the Rights Issue that is not contained within this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by Narhex Life Sciences or its Directors. Except as required by law, and only to the extent so required, neither Narhex Life Sciences nor any other person warrants the future performance of Narhex Life Sciences or any return on any investment made pursuant to this Prospectus.

Privacy

As a Shareholder, Narhex Life Sciences and the Registrar have already collected certain personal information from you. If you apply for New Shares, Narhex Life Sciences and the Registrar may update that personal information or collect additional personal information. Such information will be used to assess your acceptance of New Shares, service your needs as a Shareholder and provide facilities and services that you request and carry out appropriate administration.

By accepting the Offer, you agree that Narhex Life Sciences and the Registrar may disclose your personal information for purposes related to your shareholding to its agents, Related Bodies Corporate, contractors and service providers including those listed below or as otherwise authorised under the Privacy Act:

- Intersuisse in order to assess your acceptance of New Shares;
- the Registrar for ongoing administration of the public register;
- printers and mailing houses for the purposes of preparation and distribution of Shareholder statements and for handling of mail; and

- ASX and other regulatory authorities.

The Corporations Act requires Narhex Life Sciences to include information about each Shareholder (including name, address and details of the Shares held) in its public register. The information contained in Narhex Life Sciences' public register is also used to facilitate payments and corporate communications (including Narhex Life Sciences' financial results, annual reports and other information that Narhex Life Sciences wishes to communicate to its security holders) and compliance by Narhex Life Sciences with legal and regulatory requirements.

Under the Privacy Act, you may request access to your personal information held by (or on behalf of) Narhex Life Sciences or the Registrar. You can request access to your personal information by telephoning or writing to Narhex Life Sciences through the Registrar as follows:

Link Market Services Limited
Locked Bag A14,
Sydney South NSW 1235
AUSTRALIA
Telephone: (02) 8280 7719
Facsimile (02) 9287 0303

A fee may be charged for access to your personal information.

Definitions and abbreviations

Defined terms and abbreviations used in this Prospectus are explained in the glossary at the end of this document.

A reference to time in this Prospectus is to Australian Eastern Standard Time (EST), unless otherwise stated.

A reference to \$ and cents is to Australian currency, unless otherwise stated.

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Entitlement and Acceptance Form

CORPORATE DIRECTORY

<p>Narhex Life Sciences Limited: ACN 094 468 318</p> <p>Registered Office: 141 Osborne Street South Yarra Victoria 3141 Australia Telephone: (03) 9279 3966 Facsimile: (03) 9279 3955 www.narhex.com</p> <p>Directors: Dr Michael Cohen (Executive Chairman) Mr Ronald Hodge (Non executive Director) Mr Peter Nash (Executive Director) Prof. John Mills (Managing Director)</p> <p>Company Secretary: Mr Mourice Garbutt Email: mgarbutt@krcc.com.au</p> <p>ASX Listing Code: NLS</p>	<p>Share Registry: Link Market Services Limited Locked Bag A14, Sydney South NSW 1235 AUSTRALIA Telephone: (02) 8280 7719 Facsimile (02) 9287 0303 Toll Free Telephone: 1800 774 759</p> <p>Auditors: Deloitte Touche Tohmatsu Chartered Accountants 180 Lonsdale Street Melbourne Victoria 3000 Australia</p> <p>Issue Manager: Intersuisse Limited Level 37 530 Collins Street Melbourne Victoria 3000 Australia Telephone: (03) 9629 8288 (Melbourne) (02) 9233 2100 (Sydney) Facsimile: (03) 9629 8882 Email: suisse@intersuisse.com.au</p> <p>Lawyers: Lander & Rogers Lawyers 600 Bourke Street Melbourne Victoria 3000 Australia www.landerson.com.au</p>
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1. SECTION 1 – KEY DETAILS OF OFFER AND IMPORTANT DATES

1.1 Key Offer Details

Existing shares on issue	161,376,664
Rights Issue ratio	1 for 5
New Shares available under Rights Issue	32,275,332*
Issue price	5 cents per New Share
Rights Issue proceeds (maximum amount)	\$1,613,767
Shares on issue following Rights Issue (maximum number) under this Prospectus*	193,651,996
Shares on issue following placement under Placement Prospectus (maximum number)**	217,651,996

* subject to rounding

** see details set out in section 3.5

1.2 Important Dates

Date of this Prospectus	5 April 2007
Existing Shares quoted on an “ex” basis	11 April 2007
Record Date	17 April 2007
Opening Date	19 April 2007
Closing Date	18 May 2007
Expected date for quotation of shares on ASX - deferred settlement basis	21 May 2007
Allotment of New Shares	28 May 2007
Expected trading on ASX	29 May 2007

Notes:

- (1) The Directors reserve the right to close the Offer later than indicated above, subject to the requirements of the Corporations Act and the Listing Rules. At least six Business Days notice will be given to extend the Closing Date.
- (2) The above timetable contains anticipated dates only. The date on which the New Shares are expected to be issued and/or commence trading on the official list may vary with any change to the Closing Date.

OFFER AT A GLANCE

- ✓ A 1 for 5 non-renounceable entitlement offer at 5 cents per New Share to raise up to approximately \$1,613,767 (before expenses of the Offer).
- ✓ An invitation to apply for Additional Shares above your entitlement at 5 cents each.
- ✓ Offer closes at 5.00 pm Melbourne time on 18 May 2007.
- ✓ Linked to the Placement Prospectus to raise up to a further \$1.2 million (before expenses of that offer).

INVESTMENT HIGHLIGHTS

- ✓ Opportunity to acquire New Shares and Additional Shares in Narhex Life Sciences at 5 cents, at a discount of over 25 % to the last trading price of 6.7 cents per Share on 4 April 2007.
- ✓ Allows the Company to advance and complete a Phase IIA, dose-finding, proof-of concept Clinical Trial of Narhex DG17 (the Company's anti-HIV protease inhibitor pro-drug) in patients with HIV infection.
- ✓ Enables the Company to plan and initiate a definitive Phase IIB Clinical Trial in China.
- ✓ Provides the Company with the opportunity to:
 - conduct any additional pre-clinical (laboratory) testing required for DG17 to enter Phase IIB Clinical Trials;
 - expand the Asia-Pacific marketing effort for Cavid AB's HIV monitoring tests, ExaVir® Load and ExaVir® Drug;
 - support the corporate and development infrastructure to achieve these goals.

RISKS

- ✓ Investment in Narhex Life Sciences should be considered as speculative. The specific risk factors of investing in Narhex Life Sciences include regulatory and clinical trial risks, managerial personnel and financial risks, which are elaborated on in section 7 of this Prospectus. There are other risks as well which are also set out in section 7 of this Prospectus. You should consider these risk factors before investing.

HOW TO ACCEPT

- The Offer extended to each Eligible Shareholder is the right to subscribe for one New Share at the Application Price for every five Shares in their name on the share register on the Record Date.
- Eligible Shareholders may also apply for Additional Shares. (see section 3.4)

ACTION REQUIRED BY SHAREHOLDERS

- Review this Prospectus and make your investment decision carefully. If you decide to take up all or part of your Entitlement or apply for Additional Shares, please complete the attached Entitlement and Acceptance Form.
- Use the addressed envelope enclosed with this Prospectus to post the Entitlement and Acceptance Form with full payment to the Registrar.
- The Entitlement and Acceptance Form with full payment must be received by the Registrar by the Closing Date, 5.00pm EST on 18 May 2007. Applications received after that date may not be accepted.
- Further information on action required by Eligible Shareholders is detailed in section 3

Contacts

Telephone

Narhex Life Sciences	Melbourne (03) 9279 3966
Intersuisse Limited (issue manager to the Offer)	Melbourne (03) 9629 8288 Sydney (02) 9233 2100
Link Market Services Limited	(02) 8280 7719 Toll Free Telephone: 1800 774 759

2. SECTION 2 – CHAIRMAN’S LETTER

Dear Fellow Shareholder,

I am pleased to invite you to participate in a *pro rata* non-renounceable entitlements offer on the basis of 1 New Share for every 5 Existing Shares that you hold, at an issue price of 5 cents per New Share, to raise proceeds of up to \$1.613 million for Narhex Life Sciences. This Rights Issue will be open in conjunction with a Placement (via a prospectus) being made to Narhex Life Sciences’ shareholders and other selected investors to raise up to a further \$1.2 million.

In the past year, 2006, Narhex Life Sciences has made significant progress towards its ultimate goal of building a company based on the clinical and commercial success of therapeutic and diagnostic products which are used to manage patients with HIV infection. Our initial goal of developing an anti-HIV protease inhibitor (DG17) and bringing it to market is very much on track. In the past year, Narhex Life Sciences has successfully completed two key clinical trials that extended our previous clinical studies and confirmed that, with proper formulation, we can obtain both predictable and therapeutic drug levels which require only low doses of DG17 to be taken by patients. Work on large-scale synthesis has also been successfully completed and we are now in the process of making our first commercial-sized batch of drug.

In addition, we have acquired an HIV diagnostic company, Cavid AB, which has developed and sells innovative low cost and easy to use tests for monitoring HIV treatment where laboratory resources are limited. Revenues from international sales of these HIV monitoring diagnostics are tracking nicely (showing strong year on year growth) and ensure that Narhex Life Sciences has a developing commercial presence in the HIV scene.

Narhex Life Sciences expects to achieve a number of key objectives in 2007. These include:

- The first commercial production of 20 kilos of DG17 of cGMP quality, which is required for the conduct of further large-scale Phase II and III Clinical Trials.
- The commercial formulation of DG17 for use in our planned Phase II Clinical Trials.
- Completion of a small Phase IIA Clinical Trial to determine an appropriate dosing protocol for this newly formulated DG17.
- Submission of complete and acceptable documentation to the China State Food and Drug Administration (SFDA) to allow our joint venture Xi’an-Hex Life Sciences Co. Ltd. to undertake Phase IIB Clinical Trials of DG17 in China.
- SFDA approval for this Phase IIB Clinical Trial to be undertaken in China.
- Commencement of Chinese Phase IIB Clinical Trials with patient recruitment in appropriate Chinese HIV treatment centres in the second half of 2007.
- Growing sales of Cavid products in Africa with registration and sales of Cavid diagnostic kits in Asia, including China, as a result of our sales and marketing efforts in these countries.

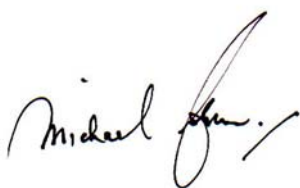
Your Board is conscious that the Company must continue to maintain and, if possible, increase its rate of progress, since it is only by the successful clinical testing and registration of Narhex DG17 and sale of Narhex DG17 to patients with HIV infection, complemented by profitable sales of Cavid diagnostics, that your Company will be successful.

Your Directors urge you to carefully read this Prospectus and the accompanying Entitlement and Acceptance Form together with all publicly available information relating to Narhex Life Sciences before deciding whether to participate in the Offer.

The Closing Date for the Offer is 5.00 pm EST on 18 May 2007.

I will certainly be taking up my full entitlement under this Offer and I urge you to do likewise.

Yours sincerely



CHAIRMAN

3. SECTION 3 - DETAILS OF THE RIGHTS ISSUE

3.1 Shares made available for Subscription

This Prospectus invites investors to apply for a total of 32,275,332 New Shares at an issue price of 5 cents per New Share payable in full on application to raise up to \$1,613,767 (before costs).

The Offer is being made as a pro rata non-renounceable entitlement offer to Existing Shareholders on the basis of 1 New Share for every 5 Existing Shares held at 5.00pm on the Record Date at an issue price of 5 cents per New Share. Where the determination of the Entitlement of any Eligible Shareholder results in a fraction of a New Share, such fraction will be rounded down to the nearest whole New Share.

In conjunction with this Prospectus, Narhex Life Sciences has issued a Placement Prospectus to raise up to a further \$1,200,000 million (before expenses of that offer).

Before the Rights Issue and the Placement, Narhex Life Sciences had 161,376,664 Shares on issue. After the Rights Issue and the Placement, if fully subscribed, Narhex Life Sciences will have approximately 217,651,996 Shares on issue, assuming no Options are exercised. Existing Shareholders who do not exercise their Rights will be diluted with respect to their interest in Narhex Life Sciences.

Narhex Life Sciences currently has 6,725,000 Options on issue, all of which are vested and exercisable. The exercise price for each of these Options varies from \$0.25 to \$0.50. The terms and conditions of each Option only provide for a right of participation by those Option holders in new issues of securities if the Option has been exercised and a Share issued consequent on the exercise prior to the Record Date. Accordingly, those Option holders will be entitled to exercise their Options during the time period set out in the ASX Listing Rules in order to participate in the Offer. More details of these Options are set out in section 8.3.

3.2 Opening and Closing Dates of the Offer

The opening date of the Offer is 19 April 2007 at 9.00 am and the closing date is Friday 18 May 2007 at 5.00pm EST. The Directors reserve the right, subject to the Listing Rules and the Corporations Act, to extend the Closing Date should it be considered by them necessary to do so. At least six Business Days notice will be given to extend the Closing Date.

3.3 Shortfall

If you do not wish to take up any part of your Entitlement under the Offer, you are not required to take any action. That part of your Entitlement not taken up will form part of the Shortfall. The Directors reserve the right, as part of the Offer, to place the Shortfall at their discretion, not only as Additional Shares for which application may be made but also generally, at an issue price of not less than the Application Price, within three months of the Closing Date

3.4 Additional Shares

Eligible Shareholders may apply for more than their Entitlement. To apply for Additional Shares you must complete the "Additional Shares" section in the Entitlement and Acceptance Form.

Eligible Shareholders may apply for Additional Shares that may be issued from any Shortfall. The Company reserves the right at its discretion to scale back or reduce to nil the number of Additional Shares applied for by any Eligible Shareholder.

Additional Shares will not be issued to any Eligible Shareholder where to do so would involve a breach of the Listing Rules or any applicable law.

3.5 Placement

In conjunction with this Prospectus, Narhex Life Sciences has also issued a prospectus under which it is seeking to raise the additional sum of up to \$1,200,000 through the placing and issue of up to approximately 24 million fully paid ordinary shares at 5 cents per Share. This sum is in addition to the sum of \$1,613,767 (before costs) which it is sought to raise through the Rights Issue set out in this Prospectus. The Shares under that Placement Prospectus are being offered to both retail investors and Sophisticated Investors and Professional Investors who may not be Shareholders and will rank equally with New Shares issued under this Prospectus and with Existing Shares. As a Shareholder of Narhex Life Sciences you will have a priority to the Placement, together with selected investors. For further information, please see the Placement Prospectus dated 5 April 2007.

3.6 Purpose of the Rights Issue

Narhex Life Sciences intends to raise net proceeds of up to approximately \$1,515,693 through the Rights Issue, after deducting estimated expenses of approximately \$98,074 for the Rights Issue. The funds raised will be used to advance and complete a Phase IIA Clinical Trial and plan and initiate a definitive Phase IIB Clinical Trial, conduct certain additional required pre-clinical (laboratory) testing and expand the Asia-Pacific marketing effort for Cavid AB and pay \$98,074 in respect of the expenses of the Offer, with any additional funds used for working capital. See section 5 for more details.

3.7 Minimum Subscription

Narhex Life Sciences is seeking to raise \$1,613,767 pursuant to this Prospectus and \$1,200,000 pursuant to the Placement Prospectus (see sections 3.1 and 3.5 above), totalling \$2,813,767 (before the costs of both offers).

The Board considers that the expenditure of the sum of \$1,500,000 is sufficient to enable Narhex Life Sciences to achieve the primary purpose of the capital raising, namely to advance and complete a Phase IIA Clinical Trial and plan and initiate a definitive Phase IIB Clinical Trial, conduct certain additional required pre-clinical (laboratory) testing, expand the Asia-Pacific marketing effort for Cavid AB and pay the expenses of the both offers. However, this amount would not provide additional working capital.

Therefore, if aggregate application monies of less than \$1,500,000 ("Minimum Subscription") are received under this Prospectus and the Placement Prospectus the Board will not issue shares under either this Prospectus or the Placement Prospectus.

The application monies received under both this Prospectus and the Placement Prospectus will be aggregated for the purpose of determining if Minimum Subscription has been achieved. No Shares will be allotted or issued under this Prospectus or under the Placement Prospectus until Minimum Subscription has been achieved. If the total application monies received under both this Prospectus and the Placement Prospectus within four months of the date of this Prospectus are less than \$1,500,000 then Minimum Subscription will not have been reached. In that instance Narhex Life Sciences will either refund the application monies received under both this Prospectus and the Placement Prospectus to the applicants or issue supplementary prospectuses under both this Prospectus and the Placement Prospectus and allow applicants one month to withdraw their applications and be refunded their application monies. No interest will be paid to Applicants on application monies refunded.

3.8 Ranking of New Shares

The New Shares will be issued fully paid and will rank equally with new Shares issued under the Placement Prospectus Existing Shares. Details of the rights and liabilities attaching to New Shares are set out in section 6.

3.9 Application Monies

Until the New Shares are allotted, Narhex Life Sciences will hold the Application Monies on trust for Applicants in a bank account. The account will be established and kept solely for the purpose of depositing Application Monies and application monies received under the Placement Prospectus and retaining those funds for as long as required under the Corporations Act. No interest will be paid to you on any Application Monies refunded to you, whether or not allotment takes place. Any interest earned on Application Monies will belong to Narhex Life Sciences. If Minimum Subscription is not achieved or quotation of the New Shares is not granted by ASX, Application Monies will be refunded to Applicants without interest.

3.10 Market Prices of Existing Shares on ASX

An overview of the sale prices of Existing Shares on ASX during the last one, three, six and twelve months until the last trading day on ASX immediately prior to lodgement of this Prospectus with ASIC is set out below:

Price per share	High	Low	Average *
1 month	\$0.062	\$0.049	\$0.055
3 months	\$0.090	\$0.049	\$0.064
6 months	\$0.100	\$0.049	\$0.069
12 months	\$0.155	\$0.049	\$0.096

* Volume weighted

The last market sale price of Existing Shares on 4 April 2007 was at 6.7 cents per Share.

3.11 Rights Issue Manager

Intersuisse Limited is managing both the Rights Issue and the offer under the Placement Prospectus and Intersuisse Corporate Pty Ltd is advising the Company in respect of the Rights Issue and the offer under the Placement Prospectus. Intersuisse Limited and Intersuisse Corporate Pty Ltd will receive fees for their services. (see section 8.6).

3.12 Allotment of Shares

New Shares issued pursuant to the Offer will be allotted within six Business Days after the Closing Date. Where no allotment is made, surplus Application Monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

3.13 Non-resident Investors

The Offer is made to Eligible Shareholders with a registered address in Australia or New Zealand only. Narhex Life Sciences is of the view that it is unreasonable to make the Offer to Shareholders outside Australia and New Zealand having regard to:

- a) the number of overseas Shareholders;
- b) the number and value of New Shares to be offered to overseas Shareholders; and
- c) the costs of complying with overseas legal requirements.

The Rights Issue is not being extended to, and no offer of New Shares will be made to, persons with a registered address in countries outside Australia or New Zealand and this Prospectus and the accompanying Entitlement and Acceptance Form do not constitute an offer to any person with a registered address in any country other than Australia or New Zealand. Eligible Shareholders holding Existing Shares on behalf of persons who are resident outside Australia and New Zealand are responsible for ensuring that taking up Rights under the Rights Issue does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Entitlement and Acceptance Form together with payment of Application Monies by bank draft drawn on an Australian bank will be taken by Narhex Life Sciences to constitute a representation that there has been no breach of such regulations. Shareholders who are nominees are therefore advised to seek independent advice as to how they should proceed.

Narhex Life Sciences reserves the right to treat as invalid any Entitlement and Acceptance Form that appears to have been submitted by a Non-Qualifying Foreign Shareholder.

3.14 ASX Listing

The Shares are currently traded on the official list of ASX. Within seven days after the date of the Prospectus, Narhex Life Sciences will make application to ASX for permission for the New Shares to be listed for official quotation by ASX.

In the event that the New Shares are not admitted to quotation within three months after the date of issue of this Prospectus (or such other period as is varied by ASIC), none of the New Shares will be allotted or issued and Narhex Life Sciences will repay all Application Monies without interest and within the time prescribed by the Corporations Act.

The fact that ASX may grant official quotation to the New Shares is not to be taken in any way as an indication of the merits of Narhex Life Sciences or the New Shares.

3.15 Clearing House Electronic Sub-Register System ("CHESS") and Issuer Sponsored Holdings

Narhex Life Sciences currently participates in CHESS.

Narhex Life Sciences will not be issuing share certificates to investors. Instead, investors will be provided with an allotment statement that sets out the number of New Shares allotted to them. The statement will also advise holders of their Holder Identification Number (HIN) or Securityholder Reference Number (SRN).

A CHESS or issuer sponsored holding statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their holding changes. A Shareholder may request an holding statement at any other time; however, a charge may be incurred for additional statements.

3.16 Taxation

The Directors do not consider that it is appropriate to give potential Applicants advice regarding the taxation consequences of applying for New Shares under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation consequences of the Offer. Narhex Life Sciences, its advisers and officers do not accept any responsibility or liability for any taxation consequences to Applicants. Applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Offer.

The New Shares you acquire as a result of the exercise of the Rights will be classified as a “financial supply” for Australian GST purposes. As such, Australian GST of 10% will not apply to any Application Monies Applicants pay in consideration for New Shares issued on exercise of the Rights. In respect of all other matters and transactions arising under this Prospectus, the Australian GST implications may vary depending upon your Australian GST registration status and residency status. You should seek independent advice in relation to your individual Australian GST position.

3.17 Dividend Policy

Narhex Life Sciences does not intend to declare or pay any dividends in the immediately foreseeable future. Any profits made will be reinvested in Narhex Life Sciences’ businesses.

3.18 No Forecasts

The Directors believe that they do not have a reasonable basis to forecast future earnings because the businesses currently operated by Narhex Life Sciences are subject to a number of inherently uncertain influences and the nature, size and timing of acquisitions cannot be reliably estimated. Although Narhex Life Sciences will seek to ensure that strategies are pursued to ensure continuing development of its businesses and acquisition of new businesses consistent with Narhex Life Sciences’ strategy, growth in revenues and earnings cannot be reliably predicted. Accordingly, any forecast or projected financial information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable estimate, forecast or prediction in this Prospectus.

Notwithstanding the above statement, there are statements in this Prospectus concerning the envisaged operations of Narhex Life Sciences following the completion of the Offer. These forward-looking statements are subject to numerous risks. For a discussion of the important risk factors which could cause actual events or results to differ materially from such forward-looking statements, please refer to section 7 of this Prospectus.

3.19 Enquiries

This Prospectus provides information for potential investors in Narhex Life Sciences, and should be read in its entirety. If, after reading this Prospectus, you have any questions about any aspect of an investment in Narhex Life Sciences, please contact your stockbroker, accountant or independent financial adviser. Any questions can also be directed to Mr Mourice Garbutt, the Company Secretary on (03) 9605 5917 or mgarbutt@krcc.com.au or ceo@narhex.com.

4. SECTION 4 – ACTIONS REQUIRED BY ELIGIBLE SHAREHOLDERS

4.1 What you may do – choices available

If you are an Eligible Shareholder, you may take any of the following actions:

- take up your Rights in full (refer to section 4.2);
- take up your Rights in full and apply for Additional Shares (refer to section 4.3)
- take up part of your Rights (refer to section 4.4);
- do nothing (refer to section 4.5).

If you have any queries regarding how to fill out the accompanying Entitlement and Acceptance Form you should contact:

Narhex Sciences Life	(03) 9279 3966 Email: ceo@narhex.com
Intersuisse Limited	(03) 9629 8288 (Melbourne) (02) 9233 2100 (Sydney)
Link Market Services Limited	(02) 8280 7719 Toll Free Telephone: 1800 774 759

4.2 If you wish to take up all of your Rights

If you are an Eligible Shareholder and you wish to take up all of your Rights, you must accept the Offer in accordance with the instructions set out in the accompanying Entitlement and Acceptance Form.

You should then forward the completed Entitlement and Acceptance Form, together with a cheque or bank draft drawn on an Australian bank for the Application Monies, to reach the following address:

By mail:
Narhex Life Sciences Limited
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 AUSTRALIA

by no later than 5.00 pm EST on 18 May 2007.

A reply paid envelope is enclosed for your convenience. Eligible Shareholders in New Zealand need to apply the correct postage and should mail their Entitlement and Acceptance Form and Application Monies early to ensure it reaches Narhex Life Sciences at the above postal address by the Closing Date.

Completed Entitlement and Acceptance Forms and Application Monies may also be lodged at Narhex Life Sciences' registered office at 141 Osborne Street, South Yarra, Victoria, Australia 3141.

4.3 If you wish to take up all of your Rights and Additional Shares

If you are an Eligible Shareholder and you wish to take up all of your Rights and apply for Additional Shares, you must

- accept the Offer in accordance with the instructions set out in the accompanying Entitlement and Acceptance Form; and
- fill in the number of Additional Shares for which you wish to apply in the Entitlement and Application Form.

You should then forward the completed Entitlement and Acceptance Form, together with a cheque or bank draft drawn on an Australian bank for the Application Monies (including for the Additional Shares), to reach the following address:

By mail:
Narhex Life Sciences Limited
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 AUSTRALIA

by no later than 5.00 pm on EST on 18 May 2007.

A reply paid envelope is enclosed for your convenience. Eligible Shareholders in New Zealand need to apply the correct postage and should mail their Entitlement and Acceptance Form and Application Monies early to ensure it reaches Narhex Life Sciences at the above postal address by the Closing Date.

Completed Entitlement and Acceptance Forms and Application Monies may also be lodged at Narhex Life Sciences' registered office at 141 Osborne Street, South Yarra, Victoria, Australia 3141.

4.4 If you wish to take up part of your Rights

If you wish to take up part of your Rights, complete the number of New Shares for which you are making application in the accompanying Entitlement and Acceptance Form.

You should then forward the completed Entitlement and Acceptance Form, together with a cheque or bank draft drawn on an Australian bank for the Application Monies, to reach the following address:

By mail:
Narhex Life Sciences Limited
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 AUSTRALIA

by no later than 5.00 pm on EST on 18 May 2007.

A reply paid envelope is enclosed for your convenience. Eligible Shareholders in New Zealand need to apply the correct postage and should mail their Entitlement and Acceptance Form and Application Monies early to ensure it reaches Narhex Life Sciences at the above postal address by the Closing Date.

Completed Entitlement and Acceptance Forms and Application Monies may also be lodged at Narhex Life Sciences' registered office at 141 Osborne Street, South Yarra, Vic Australia 3141.

4.5 Rights not taken up – if you do nothing (including Non-Qualifying Foreign Shareholders)

If you do not wish to accept all or part of your Entitlement, you are not obliged to do anything. The Offer is non-renounceable so you may not sell or transfer all or part of your Entitlement to any other party. Your Entitlement will be allocated to those Eligible Shareholders applying for Additional Shares or to those to whom the Directors allocate any Shortfall (see section 3.3)

4.6 Payment

The Application Monies for the New Shares and any Additional Shares for which application is made are payable in full on application by a payment of 5 cents per New Share. The Entitlement and Acceptance Form must be accompanied by a cheque or bank draft for the Application Monies. Cheques or bank drafts must be in Australian currency only, made payable to "**Narhex Life Sciences Limited – Share Offer**" and crossed "Not Negotiable".

Payments by cheque will not be regarded as having been made until the cheque is paid by the bank on which it is drawn.

Applicants must not forward cash. Receipts for payment will not be issued.

Narhex Life Sciences will not be paying any fees to any holders of financial services licences in respect of Entitlement and Acceptance Forms bearing the stamp of such dealers. No brokerage or stamp duty will be payable by investors in respect of subscribing for New Shares pursuant to this Prospectus.

5. SECTION 5 – THE COMPANY AND THE PURPOSE AND EFFECT OF THE OFFER

5.1 The Company

Narhex Life Sciences Limited is a Melbourne-based biotechnology company that is both developing a new treatment known as DG17 for people infected with HIV and selling a range of low cost easy-to-use diagnostics, suitable for monitoring the progress of HIV-infected people on long term therapy.

5.2 Narhex DG17 – a new treatment for HIV infection

Narhex Life Sciences has developed a new drug DG17 to treat HIV infection.

DG17 is one of a class of anti-HIV drugs called protease inhibitors which work by blocking a key viral protease enzyme that is essential for viral replication and assembly. In the body DG17 is converted to its active form DG35 which is a potent anti-HIV drug in the test tube (active against HIV virus at sub-micromolar concentrations).

DG17, which is the "pro-drug" of DG35, is absorbed if given orally and has been subjected to considerable preclinical testing, including three-month, two-species toxicity testing. These animal trials have confirmed the drug is free of observable toxicity.

A Phase IA Clinical Trial of a single dose of DG17 in healthy volunteers confirmed the drug was non-toxic in humans but, because of erratic absorption, showed wide variability in blood levels. A subsequent Phase IB "proof-of-concept" Clinical Trial of DG17 conducted in HIV-infected subjects who were treated for two weeks with DG17 also showed DG17 to be safe and effective against HIV infection; but because of erratic absorption and widely fluctuating blood drug levels DG17 showed variable and unpredictable efficacy in relation to the administered drug dosages.

Formulation Trials

Subsequent to its listing on ASX in January 2005, Narhex Life Sciences has conducted two pivotal Phase IA Clinical Trials. These were designed to evaluate how the "formulation" of DG17 (the type of pill used) could be varied to improve the reliability of DG17 absorption, and to determine if ritonavir "boosting" of the drug would achieve therapeutic blood levels which would allow both lower DG17 doses and longer intervals between doses. Both of these trials were completely successful in achieving their stated goals.

As a result of these two successful clinical trials in 2006, Narhex Life Sciences now believes it will be possible to produce therapeutic blood levels of DG35, the active antiviral part of the DG17 pro-drug, using very low doses of DG17 once or twice a day. DG17 will be formulated as an enteric coated tablet and given in combination with small doses of ritonavir (another protease inhibitor) which results in a forty fold increase in average blood levels.

These latest clinical trials have also shown that the dose of DG17 needed to block HIV replication in infected patients is probably as low, or lower, than any other protease inhibitor currently in common use. This has important clinical and commercial implications for DG17, in that tablets will be smaller and easier to swallow, the lower amount of active drug should be much less likely to cause local irritant effects in the stomach or intestinal tract and low dose tablets will be relatively inexpensive to manufacture.

Plans for Development of DG17 in 2007

This year will be a pivotal year in the clinical development of DG17.

The next milestone is to conduct a Phase IIA proof-of-concept, dose-finding Clinical Trial. Preparation of the new enteric-coated formulation of DG17 for this clinical trial is nearly complete, and should allow Narhex Life Sciences to begin this pivotal trial in the first half of 2007. The enteric-coated DG17 will also be "boosted" with low-dose ritonavir. The key results of this study are expected to be available by the second or third quarter of this year, as the study will require only twenty to twenty four patients treated for two weeks to determine optimal dosage of DG17 and to show that it will lower viral load with fourteen days treatment as predicted by test tube experiments.

Because we now have such promising Phase IA Clinical Trial data with DG17, management is confident that the Phase IIA Clinical Trial will be successful, confirming that low doses of the drug will be safe and highly effective at blocking HIV replication in patients. We will also establish a dose regime (once or twice daily treatment) which will be used in our larger Phase IIB comparative Clinical Trial planned to be done in China. With a successful outcome of the Phase IIA Clinical Trial, and certainly with a successful outcome of the Phase IIB Clinical Trial, Narhex Life Sciences will be able, if it wishes, to have discussions with larger companies in the pharmaceutical industry

(potential licensees or development partners) and its progress should be better appreciated by the Australian capital markets.

A significant portion of the funds raised will be used to ensure this Phase IIA Clinical Trial is completed on time and to standards required by regulatory authorities in China, as well as in Western countries such as the USA and Australia.

Narhex Life Sciences intends that the DG17 dose established as optimally-effective in the Phase IIA Clinical Trial will be used in a Phase IIB comparative Clinical Trial, possibly with the aim of starting as early as the third or fourth quarter of 2007. This clinical trial will be done through the Narhex Life Sciences joint venture in China, and will enroll about 200 patients, who will all be treated for six months, half with a DG17 combination and half with a conventional combination of drugs. The funds required to plan and initiate this trial by the joint venture, including purchase of the required DG17, have been contributed into the joint venture company Xi'an Hex Life Sciences Co. Ltd and have already been supplemented by funds contributed in China by our Chinese joint venture partner. It is too early to be sure whether additional studies may be required by the SFDA to backfill any gaps it may perceive in preclinical testing.

Potential Market Size

The anti-HIV drug market exceeds US\$5 billion per year in the USA. Although precise figures are not known, Chinese authorities have admitted to 650,000 HIV infected people and have given HIV diagnostics and therapeutics special rapid approval status in the regulatory process. Current best practice requires each patient to take at least three different drugs (combination therapy) and, once started, treatment needs to be continued for life. Since treatment is now highly effective, the number of patients with HIV infection is increasing, as patients now rarely die of AIDS.

Although there are now over two dozen drugs available to treat HIV infection, including several protease inhibitors, for a number of reasons Narhex Life Sciences believes that there is a reasonable possibility of DG17 capturing significant market share in China providing the drug is able to pass quickly through regulatory processes.

Narhex Life Sciences management believes that the effective dose of DG17 will be as low, or lower, than existing protease inhibitors in use, suggesting that cost of goods and drug reactions in patients will be reduced. This could enable DG17 to become a preferred protease inhibitor, even in developed countries.

5.3 Narhex Life Sciences subsidiary, Cavid AB – Tests to manage HIV/AIDS Patients

Narhex Life Sciences purchased the assets of Cavid Tech AB in April 2006, recruited key production and marketing staff and has focused all company efforts on expanding sales in Africa and Asia. The sales performance of the new subsidiary has met or exceeded budget forecasts and the Directors are confident that this acquisition will provide strong and continuing revenue growth over time.

Cavid has developed two key assay products that are used to manage patients being treated for HIV infection (whether with protease inhibitors or other drugs).

The key test to assess whether HIV treatment is effective is the "HIV viral load", measuring the absolute level of HIV virus in the patient's bloodstream. This test is used to determine whether a patient just started on therapy is responding, and is also used to determine whether patients who have been on long-term therapy are continuing to respond or whether the virus is becoming resistant to the drug regime in use and treatment is failing (shown by rising viral loads)

Narhex/Cavid's **ExaVir[®] Load** is a relatively inexpensive, easy-to-use test for viral load which, unlike conventional viral load tests, does not require expensive, fragile, sophisticated and highly complex instrumentation. ExaVir[®] Load is currently really the only test available to measure HIV viral load that is both affordable and can be used in the resource-limited environments found in Africa and Asia.

Due to the efforts of many government and non-government organizations, such as the Bill & Melinda Gates Foundation and the William J Clinton Foundation, over a million people in Africa and Asia who are already being treated for HIV infection, are candidates for Cavid technology. This number is expected to increase five-fold or more in the next few years as it has recently been agreed that all patients on treatment will need monitoring by viral load testing. Cavid is in contact with all of the key international aid organizations including the World Health Organization (WHO), and has expectations that its products will be central to many treatment programs in the coming years.

Cavid continues some basic work to develop improved versions of ExaVir[®] Load in its laboratory facilities in Uppsala, Sweden.

In the last six months of 2006, Cavidiv achieved sales of \$950,000, primarily in sub-Saharan Africa; sales are expected to increase substantially in coming years as marketing efforts are extended to southern Africa, south East Asia and China, India and Eastern Europe.

Cavidiv also makes a similarly inexpensive, easy-to-use test to determine the presence or absence of drug resistance in patients' HIV viral isolates. The test is called **ExaVir[®] Drug**. This product uses the same equipment platform and principles as ExaVir[®] Load.

Resistant strains of HIV, which develop in response in sub-optimal treatment, are increasingly common in the developed western world, and should increase in Africa and Asia as treatment becomes more common there. ExaVir[®] Drug is the only test which is inexpensive enough to allow significant testing of HIV strains for drug resistance in resource-constrained environments. Narhex Life Sciences believes this will be an important source of new revenues for the company in the near future.

Plans for ExaVir[®] Load and ExaVir[®] Drug

Additional funds from this capital raising will be used to dramatically expand ExaVir[®] Load and ExaVir[®] Drug marketing efforts in Asia, where the test is not yet used to any significant extent. This market comprises more than ten million HIV-infected persons. Funds will also be used to launch any improvements to those tests in African, Asian, Eastern European and South American markets. Narhex has recently appointed highly experienced sales people to service emerging markets in central Africa and Asia.

Potential Market Size

At present over one million people with HIV infection are being treated in the developing world where resources are scarce. Narhex Life Sciences considers that most treated patients will require two viral load tests annually, half of the testing levels recommended in the developed world such as Australia. Satisfying this demand will generate considerable growth in global sales of Cavidiv diagnostics in the next three years.

If the number of patients being treated is successfully increased to five million, as is predicted over the next three to five years, Narhex Life Sciences believes its revenues will show substantial growth due to both increasing market share and a rapidly increasing utilization rate.

5.4 Intellectual Property Protection

Narhex DG17 (the protease inhibitor prodrug) and the protease inhibitor itself (DG35) are protected by patents either granted or under review in most major regions, including North America, Western Europe, Australia and China.

5.5 Purpose of the Offer

The purpose of the capital raisings comprising both the Rights Issue (this Offer) and the Placement (see section 3.5) is to raise a minimum of \$1.5 million. In the event that the Company does not raise the minimum of \$1.5 million, then all Application Monies raised will be returned to investors in both the Rights Issue and the Placement. The proceeds from the Offer and the Placement (after payment of the expenses of this Offer and the Placement) will be used to:

- Advance and complete a Phase IIA, dose-finding, proof-of concept Clinical Trial of Narhex DG17 (the Company's anti-HIV protease inhibitor pro-drug) in patients with HIV infection. This trial will build on the information obtained in two clinical trials in 2006, and will define the dose of DG17 required to block HIV infection in patients. For a new anti-HIV drug, a clinical trial of this type is pivotal to documenting the drug's efficacy.
- Obtain SFDA approval for and to initiate a definitive Phase IIB Clinical Trial in China. As currently forecast this study will enroll 200 subjects with HIV infection for treatment with "combination" therapy (three or more drugs active against HIV infection), with one-half of the subjects treated with a combination containing DG17 and the other half treated with a well-established "standard" combination. The treatment will continue for a minimum of six months. This study will be the first definitive comparison of DG17 treatment with standard treatment, with respect to tolerance, efficacy, and toxicity. The success rate (registration with regulatory agencies allowing sales) for anti-HIV drugs that successfully complete Phase II Clinical Trials is greater than 90%.
- Conduct any additional pre-clinical (laboratory) testing that may be required by the SFDA for DG17 to enter Phase IIB Clinical Trials in China.

- Expand the Asia-Pacific marketing effort for Cavid AB's HIV monitoring tests - ExaVir[®] Load and ExaVir[®] Drug
- Support the corporate and development infrastructure to achieve these goals.

5.6 Effect of the Offer on Pro Forma Balance Sheet

The net cash proceeds from receipt of Minimum Subscription (being \$1,500,000 less expenses of the offers under this Prospectus and the Placement Prospectus of \$171,000), totalling approximately \$1,329,000, have been included as cash and cash equivalents in the Balance Sheet in this section 5.6. The corresponding adjustment has been made to issued capital in the Balance Sheet in this section 5.6. The Balance Sheet in this section 5.6 is based on the Balance Sheet of the Company as at 31 December 2006 prepared in accordance with Australian Accounting Standards and lodged with ASX on 28 February 2007.

These are the only two adjustments to the Balance Sheet at 31 December 2006 as reported to ASX on 28 February 2007. The Balance Sheet set out below is intended to be illustrative only and it neither reflects the actual position of Narhex Life Sciences as at the date of this Prospectus nor at the Closing Date. It is intended solely to illustrate the financial position that Narhex Life Sciences would have had on 31 December 2006 had Minimum Subscription (less the expenses of the offers under this Prospectus and the Placement Prospectus of \$171,000) been received on that date).

NARHEX LIFE SCIENCES LIMITED ACN 094 468 318

CONSOLIDATED CONDENSED BALANCE SHEET

AS AT 31 DECEMBER 2006

	CONSOLIDATED	
	Pro-forma 31 December 2006	As at 31 December 2006
	\$	\$
<hr/>		
Current Assets		
Cash and cash equivalents	4,208,674	2,879,674
Trade and other receivables	603,696	603,696
Inventories	490,798	490,798
Prepayments	456,664	456,664
Total Current Assets	5,759,832	4,430,832
Non-Current Assets		
Property, plant and equipment	93,981	93,981
Intangible assets	1,046,795	1,046,795
Total Non-Current Assets	1,140,776	1,140,776
TOTAL ASSETS	6,900,608	5,571,608
Current Liabilities		
Trade and other payables	564,804	564,804
Provisions	39,125	39,125
Total Current Liabilities	603,929	603,929

TOTAL LIABILITIES	<u>603,929</u>	<u>603,929</u>
NET ASSETS	<u>6,296,679</u>	<u>4,967,679</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	12,948,392	11,619,392
Accumulated losses	(6,827,059)	(6,827,059)
Reserves	(68,896)	(68,896)
Parent interests	<u>6,052,437</u>	<u>4,723,437</u>
Minority interest	<u>244,242</u>	<u>244,242</u>
TOTAL EQUITY	<u>6,296,679</u>	<u>4,967,679</u>

5.7 Dividends

Narhex Life Sciences does not intend to declare or pay any dividends in the immediately foreseeable future. Any profits made will be reinvested in Narhex Life Sciences' businesses.

6. SECTION 6 – RIGHTS ATTACHING TO SHARES

The following is a summary of the more significant rights attaching to the Shares. This summary is not intended as, and does not constitute, a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights attaching to Shares are set out in the Constitution, a copy of which is available for inspection at Narhex Life Sciences' registered office during normal business hours.

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

6.1 Shares

The share capital in Narhex Life Sciences consists of ordinary shares. The Shares are of the same class and rank equally in all respects. The Shares are quoted on the official list of ASX.

6.2 Shareholder Meetings

Shareholders are entitled to be present in person or by proxy, attorney or representative to attend and vote at meetings of shareholders of Narhex Life Sciences. Shareholders may requisition meetings in accordance with section 249D of the Corporations Act.

6.3 Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at meetings of Shareholders or classes of Shareholders:

- a) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- b) on a show of hands, every Shareholder present, or a proxy, attorney or representative of a Shareholder, has one vote; and
- c) on a poll, every Shareholder present or a proxy, attorney or representative of a Shareholder, has, in respect of each fully paid share held, or in respect of which they are appointed a proxy, attorney or representative, one vote for the share, but in respect of partly paid shares has a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

6.4 Dividend Rights

The Board may from time to time determine that a dividend is payable to the Shareholders. The dividend is (subject to the rights of, or any restrictions on, the holders of shares created under any special arrangement as to dividend) payable on all shares pro rata to the total amount for the time being paid, but not credited as paid, in respect of the shares as a proportion of the amounts then paid and payable thereon, excluding the amounts credited, and may be paid at a rate per annum in respect of a specified period provided that no amount paid on a share in advance of calls is to be treated as paid on that share. The Board may from time to time pay to the Shareholders such interim dividends as the Board may determine. No dividends are payable except out of profits. A declaration of the Board as to the profits of Narhex Life Sciences is conclusive. No dividend shall carry interest as against Narhex Life Sciences. The Board, in priority to any dividend, may set aside out of the profits of Narhex Life Sciences such amounts as it may determine as reserves, to be applied at the discretion of the Board for any purpose for which the profits of Narhex Life Sciences may be properly applied.

6.5 Issue of Shares

The issue of shares in the capital of the Company and options by the Company is under the control of the Directors, subject to the Corporations Act, the Listing Rules, the Company's Constitution and any rights attached to any special class of shares.

6.6 Transfer of Shares

The Company participates in the electronic share registration and transfer system known as CHESS operated by ASX under the Security Clearing House Business Rules. Accordingly, the Company will issue holding statements in lieu of share certificates. The Company will not charge any fee for registering a transfer of shares. The Directors may refuse to register a transfer of shares, or request SCH to apply a holding lock to prevent a proper SCH transfer, in the circumstances identified in the Constitution or as otherwise permitted or required under the Corporations Act or Listing Rules.

6.7 Variation of Rights

Narhex Life Sciences may, with the sanction of a special resolution passed at a meeting of the holders of a class of shares, vary the rights attaching to that class of shares.

6.8 Buy Back

Narhex Life Sciences may buy back shares in itself in accordance with the Corporations Act and the Listing Rules (where applicable) on the terms and at the times determined by the Board.

6.9 Calls on Shares

Where shares are issued as partly paid (at present there are none), the Board may make calls upon the holders of those shares to pay the whole of, or a portion of, the balance of the issue price. If a holder fails to pay a call or instalment of a call then, subject to the Corporations Act and the Listing Rules, the shares in respect of the call may be forfeited in accordance with the Constitution.

6.10 Directors

The Corporations Act requires that a public company must have a minimum of three directors, all of whom must be natural persons and two of whom must normally reside in Australia.

Under the provisions of the Constitution, unless changed by the Company in general meeting, the number of Directors is not less than three and not more than ten. The Company in general meeting may vary these numbers provided always that the number of directors is not less than three. The existing directors and the Company in general meeting may appoint a new director to fill a casual vacancy or as an addition to the Board. Any such director must retire at the next following annual general meeting under the Constitution, (at which meeting he or she may be eligible for election as a director). No director, other than the managing director, may hold office for longer than three years without submitting himself or herself for re-election at the next following annual general meeting.

The business of the Company is to be managed by or under the direction of the directors. The directors are not required by the Constitution to hold any shares in the Company.

7. SECTION 7 - RISK FACTORS

7.1 General

Whilst the Directors encourage Shareholders to take up their Entitlement, the New Shares should be considered speculative because of the nature of Narhex Life Sciences' businesses. A number of material risk factors are set out below. This list is not exhaustive and potential Applicants should examine the contents of this Prospectus and consult their professional advisers before deciding whether to apply for New Shares.

The business activities of Narhex Life Sciences are subject to various risks that may impact on the future performance of Narhex Life Sciences. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of Narhex Life Sciences and cannot be mitigated. Accordingly, an investment in Narhex Life Sciences carries no guarantee with respect to the payment of dividends, return of capital or price at which Shares will trade.

Factors such as inflation, interest rates, levels of tax, taxation law and accounting practices, government legislation or intervention, natural disasters, social upheaval, and war may have an impact on prices, operating costs and market conditions generally. Accordingly, Narhex Life Sciences' future possible revenue and operations can be affected by these factors, which are beyond the control of Narhex Life Sciences.

7.2 Rights Issue Risk

Existing Shareholders' interests in Narhex Life Sciences will be diluted to the extent that they do not take up their Entitlements. Their interests will also be diluted to the extent of any other share issues in which they do not participate, including under the Placement Prospectus.

7.3 Status of Narhex Life Sciences' Business

Narhex Life Sciences is at an early stage in the development of therapeutic compounds. The Directors cannot predict when, if ever, the research and development programs of Narhex Life Sciences will result in commercially available drugs. Similarly, the Directors do not know when, if ever, Narhex Life Sciences will receive any significant revenue from commercial sales of these products.

The Company is expected to incur operating losses until it derives revenue from commercialisation of its lead compound, Narhex DG17. These losses will principally result from the various costs associated with research and development programs, directed to the development of better formulations of the lead compound, pre-clinical and clinical trials and other activities required by regulatory authorities. Narhex Life Sciences may not achieve consistent profitability, which is dependent upon:

- obtaining regulatory approvals for products;
- entering into licence arrangements with pharmaceutical companies capable of late-stage development, registration, commercialisation and marketing of drugs;
- successfully manufacturing and marketing commercial products;

There is no assurance that Narhex Life Sciences will generate significant revenues or that Narhex Life Sciences will achieve profitability.

7.4 Regulatory Risks

The regulatory process, which includes pre-clinical studies and clinical trials of each product in order to establish its safety and efficacy, is uncertain, can take many years and requires the expenditure of significant resources. Data obtained from preclinical and clinical activities are susceptible to varying interpretations which could delay, limit or prevent regulatory approval or clearance. There is no assurance that Narhex Life Sciences' products will prove to be safe and effective in clinical trials or that the regulatory approval to manufacture and market its products will be received.

In addition, delays or rejections may be encountered based upon enforcement of changes, extensions or demands for additional testing to meet and/or satisfy regulatory policy during the period of product development and the period of review of any application for regulatory approval or clearance for a product. Delays in obtaining regulatory approvals or clearances:

- would adversely affect the marketing of any products developed;
- could impose significant additional costs;
- would diminish any competitive advantages attained;
- could adversely affect the ability to receive royalties and generate revenues and profits.

Regulatory approval, if granted, may entail limitations on the indicated uses for which the approved product may be marketed. These limitations could reduce the size of the potential market for such products. Product approvals, once granted, may be withdrawn if problems occur after initial marketing. Further, manufacturers of approved products are subject to ongoing regulation, including compliance with detailed regulations governing cGMP. Failure to comply with manufacturing regulations can result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to renew marketing applications and criminal prosecution.

7.5 Intellectual Property Risks

The success of Narhex Life Sciences depends in part on its ability to:

- obtain and maintain commercially valuable patents;
- protect trade secrets;
- operate without infringing upon the intellectual property of others;
- prevent others from infringing the its intellectual property

Narhex Life Sciences will only be able to protect its intellectual property from unauthorized use to the extent that these rights are covered by valid and enforceable patents or are effectively maintained as trade secrets.

Maintaining the patent position of Narhex Life Sciences involves complex legal and factual questions. Legal standards relating to the validity and scope of claims in the biotechnology field are still evolving.

7.6 Development of Products and Market Acceptance

Drug development is subject to multiple risks of failure related to both efficacy and commercial viability. Physicians, patients or the medical community generally may not accept or utilise any products that may be developed by Narhex Life Sciences. These risks include the possibility that any such products will:

- be found to be unsafe or have unacceptable side effects;
- be found to be ineffective;
- fail to receive necessary regulatory approvals;
- be difficult or impossible to manufacture on a large scale;
- be uneconomical to market;
- fail to be developed prior to the successful marketing of similar products by competitors;
- be impossible to market as they infringe on the proprietary rights of third parties or compete with products marketed by third parties that are superior;
- not be as effective as alternative treatment methods.

A specific risk in the development and registration of Narhex DG17 is that, to date, human clinical testing has not yet been conducted for periods longer than fourteen days. Longer trials may show reduced efficacy of the drug, increased toxicity or development of resistance or any combination of these effects.

7.7 Product Liability Exposure and Unavailability of Insurance

Narhex Life Sciences may experience losses due to product liability claims. Product liability insurance may not be adequate or may not be available in sufficient amounts, at an acceptable cost or at all. Narhex Life Sciences may not be able to obtain commercially reasonable product liability insurance for any product approved for marketing. A product liability claim, product recall or other claim, as well as any claims for uninsured liabilities or in excess of insured liabilities, may significantly harm Narhex Life Sciences.

7.8 Lack of Sales, Marketing and Distribution Capabilities

Narhex Life Sciences currently, through its wholly owned subsidiary Cavid, has sales, marketing and distribution capabilities for HIV diagnostics, especially in Africa, and is developing these abilities in Asia and the South Pacific region. At the present time it has no personnel devoted to pharmaceutical sales but it considers that this capability could be built onto its existing diagnostic sales, marketing and distribution team should it not partner with a major pharmaceutical company to market its drug products on its behalf. If Narhex Life Sciences chooses not to establish such relationships it will build onto its existing marketing and sales force

7.9 Future Capital Requirements

The future expansion of Narhex Life Sciences is dependent upon having adequate capital available to fund its growth and drug development; there can be no assurance that additional financing, should it be required, will be available on acceptable terms or at all.

If Narhex Life Sciences fails to obtain adequate funds when needed it may:

- delay or cease its research and development activities, or other aspects of its business;
- be forced to license or sell its technologies on unfavourable terms;
- have to reduce or cease operation.

If Narhex Life Sciences raises money by issuing shares or borrowing money, the terms may not be favourable and may dilute the ownership of its shareholders. Any debt financing may contain restrictive covenants and, if Narhex Life Sciences defaults, may provide the lender with rights to some or all of Narhex Life Sciences' assets.

7.10 Reliance on Key Personnel

Narhex Life Sciences' prospects depend, in part, on the ability of its executive officers and senior management to operate effectively, both independently and as a group. To manage its growth, Narhex Life Sciences must attract and retain additional highly qualified management, technical, sales and marketing personnel and continue to implement and improve operational, financial and management information systems. Narhex Life Sciences has in place employment contracts with select employees and provides attractive employment conditions to assist in the retention of key personnel.

7.11 Competition Risk

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Many companies are involved in HIV therapeutics. Numerous companies and institutions compete with Narhex Life Sciences in developing alternative drugs to treat HIV, including pharmaceutical companies, biotechnology companies, academic institutions and research organisations.

Competitors may develop more effective or more affordable products or may achieve earlier patent protection or product commercialisation than Narhex Life Sciences. Not only may new protease inhibitors be developed, but different classes of drugs may be developed to treat HIV. These competitive products may render the protease inhibitors of Narhex Life Sciences obsolete.

Narhex Life Sciences' investigational anti-HIV protease inhibitor pro-drug, DG17, is similar to several other HIV protease inhibitors already on the market. Although Narhex Life Sciences believes that DG17 may have some competitive advantages (dose, tolerance, cost of goods) which will give it a significant share of the protease inhibitor market (US\$2 billion per year in the USA alone), the primary advantages and disadvantages of DG17, and the nature of its competitive position, will not be known until completion of Phase IIB and phase III clinical trials.

There are now over two dozen drugs available to treat HIV infection, with several investigational drugs in the late stages of clinical trials. In developed countries treatment with current anti-HIV drugs often allows patients with HIV infection to lead long and normal lives. It is uncertain what role DG17 will have in the overall picture of HIV management, and this will probably not be known until the drug is actually marketed. In favour of significant market penetration for DG17 is that fact that patients with HIV infection need to take anti-HIV drugs for life, and as a result, many patients will need to use six to twelve of these drugs over their lifetime. The reasons for this are differences between patients in how they respond to anti-HIV drugs, how well individual drugs are tolerated, adverse reactions that the patients experience, and whether the patient's strain of HIV becomes resistant to some of these drugs.

7.12 General Economic Climate

Factors such as inflation, currency fluctuations, interest rates, supply and demand of capital and industrial disruption have an impact on business costs, commodity prices and stock market prices. Narhex Life Sciences' share price, operations, business and profitability can be affected by these factors, which are beyond the control of Narhex Life Sciences and its Directors.

7.13 Share Market Conditions

There are general risks associated with any investment and the share market. The price of shares may rise and fall depending on a range of factors beyond Narhex Life Sciences' control and which are unrelated to Narhex Life Sciences' financial performance. These factors may include movements on international share markets, interest rates and exchange rates, together with domestic and international economic conditions, inflation rates, commodity supply and demand, government taxation and royalties, war, global hostilities and acts of terrorism.

7.14 Speculative Nature of Investment

The above list of risk factors ought not to be taken as exhaustive of the risks faced by Narhex Life Sciences or by investors in Narhex Life Sciences. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of Narhex Life Sciences and the value of the New Shares. Therefore, the New Shares carry no guarantee with respect to the payment of dividends, returns of capital or the market value of the New Shares. Potential investors should consider that the investment in Narhex Life Sciences is speculative and should consult their professional advisers before deciding whether to apply for the New Shares.

8. SECTION 8 – ADDITIONAL INFORMATION

8.1 Continuous Disclosure Obligations

This Prospectus is issued pursuant to section 713 of the Corporations Act as a prospectus for continuously quoted securities.

Section 713 of the Corporations Act enables companies to issue prospectuses where those companies are, and have been for a period of 12 months, disclosing entities.

Narhex Life Sciences is a disclosing entity under the Corporations Act and, as such, is subject to regular reporting and disclosure requirements. As an ASX listed entity, Narhex Life Sciences is subject to the Listing Rules. The Listing Rules require that if Narhex Life Sciences is aware, or becomes aware, of any information concerning Narhex Life Sciences that a reasonable person would expect to have a material effect on the price or value of Shares, Narhex Life Sciences must inform the ASX of this information immediately. The New Shares offered pursuant to this Prospectus are of a class that has been continuously quoted on the ASX for at least 12 months prior to the date of issue of this Prospectus.

In general terms, prospectuses for continuously quoted securities are only required to contain such information that investors and their professional advisers would reasonably require to make an informed assessment of the effect of the issue of securities on the issuing company and the rights and liabilities attaching to the securities offered. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects for the issuing company.

This Prospectus is intended to be read in conjunction with publicly available information in relation to Narhex Life Sciences which has been notified to ASX and does not include all of the information which would be included in a prospectus for an initial public offering of shares in an entity which is not already listed on the ASX. Investors should therefore have regard to other publicly available information in relation to Narhex Life Sciences before deciding whether or not to acquire New Shares. Information that is already in the public domain has not been reported in this Prospectus, other than that which is considered necessary to make this document complete.

Any person has a right to obtain a copy of any of the following documents. Narhex Life Sciences will provide a copy of any of these documents free of charge, upon request before the Closing Date:

- a) the 2006 annual report;
- b) any half-year financial report lodged with ASIC by Narhex Life Sciences after lodgement of the 2006 annual report and before lodgement of this Prospectus; and
- c) any continuous disclosure notices given by Narhex Life Sciences to the ASX after lodgement of the 2006 annual report and before the lodgement of this Prospectus.

The 2006 annual report was lodged with ASX on 28 September 2006. The half-year financial report for the six months ended 31 December 2006 was lodged with ASIC and ASX on 28 February 2007.

Narhex Life Sciences has made the following announcements to ASX since the lodgement of the 2006 annual report:

03/04/2007	Appointment of Manager of Scientific Affairs
28/02/2007	Half Yearly Report/Half Year Accounts
07/02/2007	Appendix 3B & Change of Director's Interest Notice x 3
31/01/2007	Commitments Test Entity - Second Quarter Report
10/01/2007	Appendix 3B
04/01/2007	Release of ASX Escrow Shares
22/12/2006	Cavidi AB collaboration with Burnet Institute
20/12/2006	Appointment of Company Secretary
30/10/2006	Commitments Test Entity - First Quarter Report
27/10/2006	Results of AGM
26/10/2006	Chairman's Presentation at AGM
18/10/2006	Amended Proxy Form
18/10/2006	Supplementary Information on AGM
02/10/2006	Chinese Joint Venture Registered
29/09/2006	Letter to Shareholders – Update
28/09/2006	Annual Report

The ASX maintains files containing publicly available information for all listed companies. Narhex Life Sciences' file is available for inspection on the website of ASX: www.asx.com.au under ASX security code "NLS". Copies of the documents lodged by Narhex Life Sciences with ASIC may be obtained from, or inspected at, an office of ASIC.

8.2 Directors' Interests

Other than as set out below or elsewhere in this Prospectus, no Director nor any organisation in which a Director has an interest, has had within two years before the lodgement of this Prospectus with ASIC, any interest in:

- the formation or promotion of Narhex Life Sciences;
- any property acquired or proposed to be acquired by Narhex Life Sciences in connection with its formation or promotion or the Rights Issue; or
- the Rights Issue; and

no amounts have been paid or agreed to be paid (in cash or shares or otherwise), nor has any benefit been given or agreed to be given, to any Director or any organisation in which such Director is a partner or director either to induce them to become, or to qualify them as, a Director, or for services provided by them in connection with the formation or promotion of Narhex Life Sciences, or the Offer.

Each Director's direct and indirect interests in Shares and Options at the date of this Prospectus are:

Director	Shares	Options	Substantial Shareholder
Dr Michael John Cohen	1,450,000	2,025,000	No
Mr Ronald Peter Hodge	7,159,032	300,000	No
Mr Peter Nash	1,000,000	1,800,000	No
Professor John Mills	500,000	1,800,000	No
Total	10,109,032	5,925,000	

The above does not take into account any New Shares the Directors may acquire under the Offer or under the Placement Prospectus. The Directors are under no obligation to take up their Entitlements.

The changes which will occur in the Directors' interests after the Offer, assuming each of the Directors accept their Entitlements in full, and the Rights Issue only is fully subscribed, are as follows:

Director	Shares	Entitlements	Options	Total Securities	% of Post Offer Shares held*
Dr Michael John Cohen	1,450,000	290,000	2,025,000	3,765,000	0.8985
Mr Ronald Peter Hodge	7,159,032	1,431,806	300,000	8,890,838	4.4362
Mr Peter Nash	1,000,000	200,000	1,800,000	3,000,000	0.6137
Professor John Mills	500,000	100,000	1,800,000	2,400,000	0.3098
Total	10,109,032	2,021,806	5,925,000	18,055,838	6.2582

* This column refers to Shares only and does not include Options. It assumes no Options held by any Director are exercised and no Shares are allotted to any Director under the Placement Prospectus.

The changes which will occur in the Directors' interests after the Offer and the offer under the Placement Prospectus, assuming each of the Directors accept their Entitlements in full, and the Rights Issue and the Placement are fully subscribed, are as follows:

Director	Shares	Entitlements	Options	Total Securities	% of Post Offer Shares held*
Dr Michael John Cohen	1,450,000	290,000	2,025,000	3,765,000	0.7994
Mr Ronald Peter Hodge	7,159,032	1,431,806	300,000	8,890,838	3.9470
Mr Peter Nash	1,000,000	200,000	1,800,000	3,000,000	0.5513
Professor John Mills	500,000	100,000	1,800,000	2,400,000	0.2757
Total	10,109,032	2,021,806	5,925,000	18,055,838	5.5734

* This column refers to Shares only and does not include Options. It assumes no Options held by any Director are exercised and no Shares are allotted to any Director under the Placement Prospectus.

8.3 Options

The Company has the following Options on issue, all of which are vested and exercisable:

Option Holder	Number	Expiry Date	Exercise Price
Killen Nominees Pty Ltd	500,000	14.09.2007	\$0.25
	500,000	14.09.2007	\$0.40
	500,000	14.09.2008	\$0.30
Michael John Cohen	525,000	07.10.2009	\$0.50
John Mills	500,000	14.09.2007	\$0.25
	500,000	14.09.2007	\$0.40
	500,000	14.09.2008	\$0.30
	300,000	07.10.2009	\$0.50
Ronald Peter Hodge	300,000	07.10.2009	\$0.50
John Majewski	300,000	07.10.2009	\$0.50
Peter Nash	500,000	08.09.2007	\$0.25
	500,000	08.09.2007	\$0.40
	500,000	08.09.2007	\$0.30
	300,000	07.10.2009	\$0.50
Harold Seeley	100,000	07.10.2009	\$0.50
Mark Smith	100,000	07.10.2009	\$0.50
Christopher Wilkinson	300,000	07.10.2009	\$0.50
Total	6,725,000		

An Option holder only has the right to participate in new issues of Shares if the Option has been exercised and a Share issued in respect of that exercise prior to the Record Date. In the case of a pro rata issue the exercise price of each Option is reduced in accordance with the formula set out in rule 6.22 of the Listing Rules. The Options are not transferable or assignable without the consent of Narhex Life Sciences.

8.4 Intersuisse Limited and Intersuisse Corporate Pty Ltd

Narhex Life Sciences has engaged Intersuisse Limited as the manager of the Rights Issue and the Placement, and Intersuisse Corporate Pty Ltd as corporate adviser to the Rights Issue and the Placement. See section 8.6 as to the fees payable to Intersuisse Corporate Pty Ltd and Intersuisse Limited.

8.5 Matters relevant to New Zealand Shareholders

The following matters should be noted by New Zealand Shareholders:

- investing in securities of an Australian issuer may carry with it a currency exchange risk;
- the financial reporting requirements applying in New Zealand and those applying to Narhex Life Sciences may be different and so Narhex Life Sciences' financial reports may not be compatible in all respects with financial statements prepared in accordance with New Zealand law;
- Narhex Life Sciences may not be subject in all respects to New Zealand law;
- the contract under which the New Shares will be issued may not be enforceable in New Zealand courts; and
- this Prospectus has not been registered in New Zealand under the respective laws of its jurisdiction and may not contain all the information that a New Zealand registered prospectus is required to contain.

8.6 Interests of Advisers and Experts

Other than as set out below or elsewhere in this Prospectus no person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, nor any organisation in which such person has an interest, has or had within two years before the lodgement of this Prospectus with ASIC, any interest in:

- a) the formation or promotion of Narhex Life Sciences;
- b) any property acquired or proposed to be acquired by Narhex Life Sciences in connection with its formation or promotion or the Rights Issue; or
- c) the Rights Issue; and

no amounts have been paid or agreed to be paid (in cash or Shares or otherwise), nor has any benefit been given or agreed to be given to any persons named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, or any organisation in which such

person is a partner or director, either to induce them to become, or to qualify them as an expert or for services provided by them in connection with the formation or promotion of Narhex Life Sciences, or the Offer.

Narhex Life Sciences has engaged the following professional advisers:

- Intersuisse Limited and Intersuisse Corporate Pty Ltd have acted as issue manager and corporate advisor respectively and to date Narhex Life Sciences has paid, or is obliged to pay, a management fee of \$40,000, a corporate fee of 3% of the total value of the capital raised under this Prospectus and under the Placement Prospectus, an additional capital raising fee of 3% of the total value of any Shares comprised in the Shortfall under this Prospectus placed by Intersuisse Limited and an additional capital raising fee of 3% of the total value of the capital raised under the Placement Prospectus.
- Lander & Rogers Lawyers have acted as legal adviser to Narhex Life Sciences in relation to the Offer and the Placement and advised Narhex Life Sciences generally in relation to the Offer and the Placement. To date Narhex Life Sciences has paid or agreed to pay approximately \$25,000 in relation to these services. Further amounts may be paid to Lander & Rogers Lawyers in accordance with their usual time-based charge-out rates.
- Deloitte Touche Tohmatsu have acted as auditor to Narhex Life Sciences and have not received any fees in respect of this Prospectus. Deloitte Touche Tohmatsu were appointed auditors on 24 October 2006 and in the period from that date to lodgement of this Prospectus at ASIC Deloitte Touche Tohmatsu have been paid approximately \$22,000 for both audit and taxation services to Narhex Life Sciences.

8.7 Consents to be Named

The following persons have given and have not, before the issue of this Prospectus, withdrawn their written consent to be named in this Prospectus in the form and context in which they are named:

- Link Market Services Limited - Registrar;
- Lander & Rogers Lawyers – Lawyers;
- Deloitte Touche Tohmatsu - Auditors
- Intersuisse Corporate Pty Ltd – corporate advisor; and
- Intersuisse Limited – managers to the Issue.

8.8 Responsibility Statements

Each person named under the above heading “Consents to be Named”:

- a) has not authorised or caused the issue of this Prospectus;
- b) does not make, or purport to make, any statement in this Prospectus other than as specified above;
- c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus; and
- e) will be paid professional fees for services rendered in connection with the Offer as set out below under the heading “Costs of the Offer”.

8.9 Costs of the Offer

If the Offer proceeds, the total estimated costs of the Offer are \$98,074. The breakdown of the estimated costs is as follows:

Cost Centre	\$
Publicity and promotion	11,476
Legal	14,338
Corporate advisory	22,940
Registry, ASIC/ASX fees	23,513
Capital Raising Expenses	25,807
Total	98,074

The costs of the Offer are calculated on the basis of only Minimum Subscription of \$1,500,000 being received, as this is the figure used to prepare the pro forma Balance Sheet in section 5.6. If more than Minimum Subscription is received then the capital raising expenses (which are calculated as 3% of the capital raised) will increase. The costs of this Rights Issue and the costs of the Placement have been apportioned between this Rights Issue and the Placement pro rata to the amount sought to be raised under each. The above costs relate only to the Offer contained in this Prospectus. To the extent that Minimum Subscription is reached but the amount raised under the Placement Prospectus is insufficient to pay the costs of the offer under the Placement Prospectus then those costs will be borne out of the monies raised under this Prospectus up to a maximum of a further \$72,926.

8.10 Material Contracts

There are no material agreements which relate to Narhex Life Sciences which have not been disclosed to ASX.

8.11 Underwriting

The Offer is not underwritten.

8.12 Directors' consent

The Directors report that, for the purposes of section 731 of the Corporations Act:

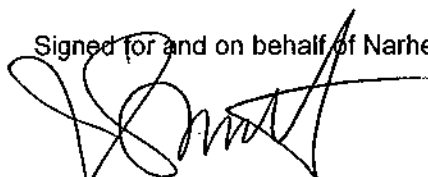
- a) they have made all enquiries that were reasonable in the circumstances;
- b) they have reasonable grounds to believe that any statements made by them in this Prospectus are true and not misleading or deceptive;
- c) they have made reasonable enquiries and have reasonable grounds to believe that persons other than Directors making statements were competent to make such statements;
- d) the persons referred to in paragraph (c) have given the consent as required by section 716(2) of the Corporations Act and have not withdrawn that consent before lodgement of this Prospectus with ASIC.

Each Director consents to the lodgement of this Prospectus with ASIC, and has not withdrawn that consent prior to this Prospectus being lodged. This Prospectus is prepared on the basis that:

- certain matters may be reasonably expected to be known to professional advisers of the kind with whom Applicants may reasonably be expected to consult; and
- information is known to Applicants or their professional advisers by virtue of any Acts or laws of any State or Territory of Australia or the Commonwealth of Australia.

This Prospectus is dated 5 April 2007.

Signed for and on behalf of Narhex Life Sciences by:



John Mills
Managing Director
Narhex Life Sciences Limited
4 April 2007

GLOSSARY

The following terms have the following meanings in this Prospectus:

Additional Shares means New Shares for which application has not been made pursuant to an Existing Shareholder's Rights.

Applicant means a person who applies for New Shares pursuant to the Offer;

Application Monies means the Application Price multiplied by the number of New Shares applied for;

Application Price means 5 cents, being the amount payable for each New Share applied for under the Offer;

ASIC means the Australian Securities and Investments Commission;

ASX means ASX Limited (ACN 008 624 691);

Auditor means Deloitte Touche Tohmatsu;

Board means the board of Directors;

Business Day means a day on which trading takes place on the stock market of the ASX;

Chairman means the Chairman of the Board;

Cavidi means Cavidi AB, a wholly owned subsidiary of the Company;

CHESS means the ASX Clearing House Electronic Subregister System;

Closing Date means the closing date of the Offer, being 5pm (EST) on 18 May 2007 (unless extended);

Constitution means Narhex Life Sciences' Constitution as at the date of this Prospectus;

Corporations Act means the Corporations Act 2001 (Cth);

Directors means the directors of Narhex Life Sciences at the date of this Prospectus;

Dollar or "\$" means Australian dollars;

Eligible Shareholders means all Shareholders as at the Record Date, other than Non-Qualifying Foreign Shareholders;

Email means an electronic mail service that allows users to send and receive messages via the internet;

Entitlement means the entitlement of a Shareholder who is eligible to participate in the Offer;

Entitlement and Acceptance Form means the application form either attached to or accompanying this Prospectus;

EST means Eastern Standard Time;

Existing Shareholders means holders of Shares as at the Record Date;

Existing Shares means Shares on issue as at the Record Date;

cGMP means current good manufacturing practices;

Group means Narhex Life Sciences Limited (ACN 094 468 318) and its subsidiaries;

GST means Goods and Services Tax;

Listing Rules means the official listing rules of ASX and any other rules of ASX which are applicable while Narhex Life Sciences is admitted to the official list of ASX, each as amended or replaced from time to time, except to the extent of any written waiver granted by ASX;

Minimum Subscription means the aggregate sum of \$1,500,000 received under this Prospectus and the Placement Prospectus;

Narhex Life Sciences means Narhex Life Sciences Limited (ACN 094 468 318) and its subsidiaries of 141 Osborne Street, South Yarra Victoria Australia 3141;

New Share means a Share offered by way of Offer in this Prospectus;

New Zealand Shareholder means any Shareholder with a registered address in New Zealand;

Non-Qualifying Foreign Shareholders means all Shareholders whose registered address is not in Australia or New Zealand;

Offer means the non-renounceable entitlement offer to Shareholders on the basis of 1 New Share for every 5 Existing Shares held as at the Record Date;

Opening Date means 9.00am on 19 April 2007;

Option means an option to acquire a Share;

Phase IA Clinical Trial means a clinical trial in which researchers test a new drug or treatment in a small group of people (typically twenty or less, and usually healthy volunteers rather than patients) for the first time to evaluate its safety, determine a safe dosage range, and identify side effects;

Phase IIA Clinical Trial means a clinical trial in which the study drug is given to a group of people (typically twenty to sixty) people with the condition that the drug is intended to treat, to determine whether the drug is effective in patients, to find a satisfactory dose for larger trials, and also to assess safety;

Phase IIB Clinical Trials means a comparative clinical trial in which the study drug is given to a group of people (typically 100-150 people) with the condition that the drug is intended to treat, while another group of similar size is given conventional therapy, with the goal of Phase IIB clinical trials being primarily to obtain a robust estimate of the efficacy of the investigative drug relative to standard therapy and also to further evaluate safety;

Placement means the seeking of applications for, and the issuing of, up to 24 million shares at 5 cents per share pursuant to the Placement Prospectus;

Placement Prospectus means a prospectus issued on or about the date of this Prospectus under which Narhex Life Sciences is seeking applications for up to 24 million shares at 5 cents per share to raise the sum of up to \$1.2 million (before costs).

Privacy Act means the *Privacy Act 1988 (Cth)*;

Professional Investor has the same meaning as in the Corporations Act;
Prospectus means this prospectus;
Record Date means 5pm EST on 17 April 2007;
Registrar means Link Market Services Limited or any other person appointed as registrar by Narhex Life Sciences from time to time;
Related Bodies Corporate has the meaning given to that term in Section 50 of the Corporations Act;
Rights means the rights of Eligible Shareholders to subscribe for New Shares under the Rights Issue;
Rights Issue means the offer of New Shares pursuant to this Prospectus;
SFDA means the China State Food and Drug Administration;
Share means a fully paid ordinary share in the capital of Narhex Life Sciences;
Shareholders means shareholders of Narhex Life Sciences;
Shortfall means the number of Shares comprising the difference between the Shares, the subject of the Offer, and the number of Shares for which valid Entitlement and Acceptance Forms have been received and accepted by Narhex Life Sciences by the Closing Date;
Sophisticated Investor means an investor in respect of whom disclosure is not needed under section 708(8) of the Corporations Act.

Narhex Life Sciences Limited

ACN 094 468 318

THIS IS AN IMPORTANT DOCUMENT

If you have questions about how to complete this form, please consult the detailed instructions overleaf. If you don't understand the significance of this form you may wish to consult a financial advisor.

MR SAM SAMPLE &
MRS SAMANTHA SAMPLE
SAMPLE STREET
SAMPLEVILLE SAM 9999

Share Registry

Contact Link Market Services Limited
Locked Bag A14, Sydney South NSW 1235
Toll Free Phone 1800 774 759
Phone 61 2 8280 7719
Fax 02 9287 0303
Email registrars@linkmarketservices.com.au
Internet www.linkmarketservices.com.au



SRN/HIN: 99999999999

- A** Shares held at 17 April 2007
- B** Entitlement
- C** Application Price A\$0.05
- D** Closing Date 18 May 2007

ENTITLEMENT AND ACCEPTANCE FORM

Non-renounceable Pro Rata Rights Issue of New Ordinary Shares

Detailed instructions are set out overleaf and should be read prior to completing this form.

Acceptance of Entitlement and Application for Additional Shares

You may accept this Entitlement Offer in full or part and you can apply for Additional Shares as shown below. The number of Additional Shares received will depend on the level of Applications for the Rights Issue and the number of Additional Shares applied for by Shareholders. Please complete the panel below for the number of New Shares accepted as per your Entitlement set out above at B above and the amount of Additional Shares you wish to apply for.

		Number of Shares		Amount enclosed being total acceptance at A\$0.05 per New Share
Number of New Shares accepted under your Entitlement	is		X \$0.05	A\$
Number of Additional Shares for which you wish to apply (Tick/Complete one box only <input type="checkbox"/>)	is	40,000 <input type="checkbox"/>	X \$0.05	A\$2,000.00 <input type="checkbox"/>
		100,000 <input type="checkbox"/>	X \$0.05	A\$5,000.00 <input type="checkbox"/>
		Other [.....] <input type="checkbox"/>	X \$0.05	Other [.....00] <input type="checkbox"/>
Total shares applied for	Complete	[] shares	X \$0.05	A\$[.....-00]

Contact Details – Please provide a telephone number in case we need to contact you during business hours.

Telephone Number

Contact Name

Payment details – please complete and ensure that the amount payable is correct and then make payment as follows:

Cheques or bank drafts must be made in Australian currency and drawn on and payable at an Australian bank and should be made payable to "Narhex Life Sciences Limited – Share Offer" and crossed "Not Negotiable". Mail this form together with your cheque to reach Narhex Life Sciences by no later than 5pm (EST) 18 May 2007. A reply paid envelope is enclosed for your convenience.

Cheque or Bank Draft Number

BSB

Account Number

Cheque Amount **A\$**

NLS EAC001



NARHEX LIFE SCIENCES LIMITED

Non-renounceable Entitlement Offer closing 5:00pm (EST) 18 May 2007

This document accompanies and forms part of the Prospectus dated 5 April 2007 and should be read in conjunction with that document. Eligible Shareholders should read the entire Prospectus carefully prior to completing this form.

Acceptance of your Entitlement

The number of fully paid Shares you held as at the Record Date is shown at item A on the top right corner overleaf. Your Entitlement to fully paid New Shares is shown at item B on the top right corner overleaf.

Fully Paid New Shares will be issued at the Application Price, shown at item C on the top right corner overleaf.

If you wish to take up your Entitlement, in full or in part, you must complete the payment details.

Narhex Life Sciences must receive your payment before the Closing Date being 5:00pm (EST) on 18 May 2007.

Additional Applications for Fully Paid New Shares

As a Narhex Life Sciences Shareholder you are permitted to apply for more fully paid New Shares in addition to your Entitlement. If you wish to apply for Additional Shares please specify the amount and complete your payment details.

If the number of the Applications for Additional Shares applied for by all Eligible Shareholders exceeds the number of fully paid New Shares available to be issued, Applications may be scaled back and a refund of any excess Application Monies will be returned to you.

General Instructions

Acceptance

By accepting this Offer in whole or in part, you will have agreed to be bound by the constitution of Narhex Life Sciences (as amended and as may be amended from time to time in the future), and the terms of the Prospectus dated 5 April 2007.

For further assistance in completing this form you may call Link Market Services at 1800 774 759.

Payment

Payment by Cheque

Please make payment for your Application by cheque or bank draft as follows:

- determine the number of fully paid New Shares you wish to apply for including any Additional Shares and record this information in the spaces provided on the front of this form;
- calculate the amount required to be paid for your total acceptance, in Australian dollars;
- prepare a cheque for this amount made payable to "**Narhex Life Sciences Limited – Share Offer**" and crossed "Not Negotiable"; and
- enclose this form with your cheque in the reply paid envelope provided and post (or deliver them) to:

Narhex Life Sciences Limited
C/- Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235

Please note:

- Cash, postal notes or money orders will NOT be accepted.
- Personal cheques drawn on overseas banks and/or in a foreign currency will NOT be accepted. These will be returned and the Application deemed to be invalid.
- Narhex Life Sciences must receive this form with your cheque before the Closing Date being 5:00pm (EST) on 18 May 2007.
- If the amount of your cheque exceeds the payment amount of your total Application Monies, the overpayment will be applied to the purchase of Additional Shares.
- In the event of underpayment, Narhex Life Sciences will reduce the number of Shares applied for.

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a securityholder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address shown on this form or telephone number 1800 802 400. Our privacy policy is available on our website (www.linkmarketservices.com.au).