



**Narhex Life Sciences Ltd**  
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20 November 2008

**MR DARREN COLLINS  
SENIOR ADVISOR, ISSUES AND ACCOUNTING POLICY  
ASX MARKETS SUPERVISION PTY LTD  
LEVEL 45, SOUTH TOWER  
525 COLLINS STEET  
MELBOURNE VIC 3000**

Dear Darren

**re : NARHEX LIFE SCIENCES LIMITED (“NLS” or “the Company”)**

We refer to your letter dated 10 November 2008 about matters arising from the Company’s Appendix 4C for the quarter ended 30 September 2008 and comment as follows to items no. 1 to 5:

**Response no. 1**

“...Is this the case ...” No.

To ensure that the Company is able to meet its commitments as and when they fall due the Company and director Dr Michael Cohen have now entered into an agreement for a \$300,000 Convertible Note facility. Subject to shareholder approval it is Dr Cohen’s intention to convert this facility to equity.

Attention is drawn to the Company’s Corporate Update to the Exchange on 21 July 2008 wherein the Company advised that recurrent corporate monthly cash burn and been reduced to \$10,000 a month. This reduced level of cash burn has been maintained.

The drawdowns against the Convertible Note facility will match the Company's cash burn. As such the Company has funding sufficient to fund its activities not only for the next two quarters but beyond December 2009 whilst discussions continue with potential equity investors.

In respect to the activities of the China Joint Venture company, Xi’an Life Sciences Co Limited (85 per cent interest) the Company is actively seeking to introduce an additional participant into the joint venture to the extent of a 15 per cent sell-down of the Company’s interest.

## **Response no. 2**

As a drug development company, Narhex Life Sciences Limited will continue to incur negative operating cash flows whilst developing in China, through Xi'an Life Sciences Co Limited (85 per cent interest), its patented anti-HIV protease inhibitor, DG 17, and until such time as marketing of the Cavidu HIV viral load assay/testing kits in China commences for which it has been licensed to exclusively market and distribute in China the Cavidu AB HIV viral load assay/testing kits.

It should be noted that the joint venture is continuing the development of DG 17 through the preparation of an application to the SDFCA to conduct a Phase II clinical trial. In addition, it has successfully completed, as the first step to formal registration of the Cavidu kits, a comparative evaluation against other reference assay products in China.

As noted in response no. 1 above the Company has put in place a funding facility to match its projected reduced levels of recurrent expenditures to December 2009 and beyond.

## **Response no. 3**

The actual revenues and expenses that arose in the September 2008 quarter were within the budgeted expectations of the Company with the major portion of the R&D expenditure being a contribution to the China JV by way of settlement of laboratory costs in India associated with drug DG 17.

## **Response no. 4**

Not applicable as the revenues and expenditures in the September 2008 quarter were substantially in accordance with budgeted expectations.

## **Response no. 5**

The Company considers that save for the delayed lodgement of the December 2007 half year and the June 2008 annual financial reports and the need for the appointment of at least one additional director that the Company has been in compliance with the ASX Listing Rules, in particular with regard to Listing Rules 3.1 and 12.2.

In respect to the issue of the December 2007 half-year Financial Report and the June 2008 Annual and Financial Report the Company advises that some of the delays experienced with the Half-Yearly Reports re-occurred in the preparation of the June 2008 Annual Reports. These, the Board of Directors believe, have now been overcome and it expects that the financial reports will be issued to shareholder with a meeting of shareholders to be held in January 2009. Shareholders will also be asked to approve the conversion to equity of the above-mentioned Convertible Note facility as provided by Dr Cohen.

In respect to the composition of the Board of Directors a resolution for the appointment of at least one additional director to the Board will be put to shareholders together with information about the future staffing of the Company.

### **Further Comment**

The Company's corporate structure and staffing in Australia have been re-organized during the past year with staff reductions and the outsourcing of services to professional service providers. The Company's Australian activities are predominantly those of corporate administration and statutory compliance.

The commercial success to the Company is now firmly linked to the success of the China joint venture operating out of the Xi'an Hi-Tech Zone where the joint venture has been constructing laboratory, warehousing and office facilities.

The joint venture holds a 50 year lease on the land on which the facilities are being constructed. The facilities are nearing completion and floor space surplus to the joint ventures needs can be leased to third parties until such time as that space is required.

It is intended that the joint venture activities in the area of drug development, technical training of operators for the Cavid kits, marketing and distribution of the Cavid kits and office administration will be centred in these facilities.

The Company's on-ground day-to-day activities in China will continue to be the responsibility of Executive Director – China Operations, Peter Nash. Mr Nash has for many years advised Australian businesses in relation to mergers, acquisitions, financing and the setting up of manufacturing plants in China utilising his extensive network of contacts.

Yours faithfully  
Narhex Life Sciences Limited



per Mourice Garbutt  
Company Secretary

nls\asx\DC response 20 11 08



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10 November 2008

Mr Mourice Garbutt  
Company Secretary  
Narhex Life Sciences Limited  
Hallam, VIC 3083

By email only

Dear Mourice

**Narhex Life Sciences Limited (the "Company")**

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 30 September 2008 ("Appendix 4C") released to ASX Limited ("ASX") on 31 October 2008.

ASX notes that the Company has reported the following.

1. Nil receipts from customers
2. Net negative operating cash flows for the quarter of (\$104,000)
3. Cash at end of quarter of \$10,000

In light of the information contained in the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may not have sufficient cash to fund its activities through the next two quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. To what extent have the Company's actual revenues and expenses in the quarter, as reported in the Appendix 4C, matched the Company's anticipated revenues and expenses for that reporting period?
4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.
5. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
6. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

### **Listing rule 3.1**

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by return email or on facsimile number 03 9614 0303. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than half an hour before the start of trading (ie before 9.30 a.m. EDST) on Friday, 14 November 2008.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries regarding any of the above, please let me know.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Darren Collins', with a stylized flourish at the end.

Darren Collins

**Senior Adviser, Issuers and Accounting Policy**