AVEXA LIMITED ABN 53 108 150 750

The directors present their report on Avexa Limited (the "Company") for the half-year ended 31 December 2004 and the review report thereon. Given that the Company only commenced operations on 1 July 2004, there is no comparative financial information included within this report. The Company was listed on the Australian Stock Exchange (ASX) on 23 September 2004.

Directors

The directors of the Company at any time during or since the end of the half year are:

Name, qualification and independence status	Experience and special responsibilities
Dr H Niall Independent Non-Executive Director and Chairman	Non-executive director and Chairman since 7 September 2004.
Dr J J Chick Executive Director	Chief Executive Officer from 7 September 2004
Ms H A Cameron Independent Non-Executive Director	Non- executive director, Chairman of the Avexa Audit Committee and Chairman from 1 July 2004 to 7 September 2004

Mr A M Boyd and Ms R M Fry were non-executive directors between 1 July 2004 and 30 September 2004 and provided financial and company secretarial services to the Company throughout the half year period. Dr P M Smith was appointed as Acting Chief Executive Officer from 1 July 2004 to 7 September 2004. Dr Smith was a non-executive director from 7 September 2004 until his resignation on 30 September 2004.

Review of operations

The principal activity of the Company during the course of the financial half-year was the development and commercialisation of anti-infective pharmaceutical programs and projects. The business encompasses the conduct of pharmaceutical research, development, intellectual property protection and commercialisation with the aim of discovering and developing human pharmaceutical products for sale in world markets.

The Company commenced operations on 1 July 2004 as the corporate entity for Amrad's spun-out anti-infectives business as detailed in an Amrad Corporation Limited Information Memorandum dated 5 July 2004. Avexa listed on the Australian Stock Exchange on 23 September 2004 with a market capitalisation approximating $24 million.

Avexa's portfolio at 31 December 2004 comprised three compounds at various stages of preclinical and clinical development.

Hepatitis B virus (HBV)

Over 350 million people are infected with HBV and it is the tenth leading cause of death worldwide. There is an urgent need for new therapies for HBV infection which act differently from the two currently available antiviral drugs, either as alternative treatments or for use in combination with the existing drugs to produce a more effective therapy. Avexa scientists have discovered two new classes of compounds (designed and synthesised in collaboration with the Medicinal Chemistry Department of the Victorian College of Pharmacy), and showed these compounds to have novel mechanisms of action. One of these compounds, AV491, was selected as a candidate drug and entered an animal efficacy model of HBV infection which is scheduled to be concluded before the end of the current financial year. Progress to date in this animal proof of concept study indicated that lower than predicted blood levels of the drug were reached in the animals using a formulation which is currently being modified to enhance the delivery and increase the probability of efficacy.

HIV

Drug toxicities and the development of antiviral resistance presently limit the clinical goal of lifetime-treatment of HIV-induced disease. Avexa scientists have established extensive expertise in studying the HIV integrase, an enzyme that has not previously been effectively targeted by antiviral drugs.

Through the use of high throughput screening, sophisticated cellular assays and molecular modelling, Avexa has identified several novel inhibitors of HIV integrase. These compounds are presently being optimised using comprehensive cellular assays and molecular modelling techniques to select a lead molecule for preclinical testing. To date there is no integrase inhibitor on the market.

VRI

The development of bacterial resistance to antibiotics has resulted in continued market opportunities for new compounds which act against resistant strains of bacteria. The present drug of last resort, when all else fails, is vancomycin. However, vancomycin-resistant bacteria are spreading, and there is currently no simple antibiotic treatment for vancomycin-resistant infections, creating a significant unmet medical need that is likely to continue to expand in the future.

This project set out to design compounds that actively bind to the modified cell wall in resistant bacteria, using structural information from the vancomycin-resistant cell wall in the design process. This novel approach has required the development of new chemistry to synthesise compounds capable of binding to the modified target (as well as the normal target).

A series of lead compounds has been generated through molecular modelling and directed medicinal chemistry, and these compounds are presently being optimised using antibacterial assays and molecular modelling techniques to select a lead molecule for preclinical testing

Post Balance Date Events

On 17 January 2005, Avexa entered into a Patent and Know How Licence Agreement (**Shire Licence Agreement**) with Shire Biochem Inc. (**Shire**). Under the Shire Licence Agreement, Avexa will take on full responsibility for the worldwide development of the drug AVX754 (formerly SPD754) in accordance with an agreed development plan. Further details are provided in Note 5 of the financial report.

Other than as referred to above, there has not arisen since the end of the half-year, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration forms part of the Directors' Report for the half year ended 31 December 2004 and is set out on page 3 of this report.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Melbourne this 31st day of January 2005.

Signed in accordance with a resolution of the directors.

Dr H Niall (Chairman)

AVEXA LIMITED ABN 53 108 150 750

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001.

To the Directors of Avexa Limited

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2004, there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) No contraventions of any applicable code of professional conduct in relation to the review.

KPMG

B W Szentirmay

Melbourne

31 January 2005

AVEXA LIMITED ABN 53 108 150 750

Statement of financial performance for the half-year ended 31 December 2004	Note	**31 December 2004** **$'000**
Licence fee and royalty revenue		-
Other revenues from ordinary activities	2	**263**
Revenue from ordinary activities		**263**
Raw materials and consumables used		**(95)**
Employee expenses		**(669)**
Occupancy		**(102)**
Depreciation expenses		**(3)**
Amortisation of intellectual property		**(3,000)**
Asset management		**(153)**
Legal and professional services		**(200)**
Travel		**(78)**
Borrowing costs		-
Insurance		**(82)**
Contract research and development costs		**(835)**
Other expenses from ordinary activities		**(128)**
Set up and establishment expenses		**(64)**
Loss from ordinary activities before income tax expense		**(5,146)**
Income tax expense		-
Net loss attributable to members of Avexa Limited		**(5,146)**
		Cents
Basic earnings per share		**(6.4)**
Diluted earnings per share		**(6.4)**

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 11.

Statement of financial position as at 31 December 2004	Note	**31 December 2004** **$'000**	
Current assets			
Cash assets		**10,070**	
Receivables		**55**	
Other		**142**	
Total current assets		**10,267**	
Non-current assets			
Receivables		**-**	
Property, plant and equipment		**20**	
Intangibles		**9,000**	
Deferred tax assets		**-**	
Total non-current assets		**9,020**	
Total assets		**19,287**	
Current liabilities			
Payables		**307**	
Current tax liabilities		**-**	
Provisions		**95**	
Total current liabilities		**402**	
Non-current liabilities			
Deferred tax liabilities		**-**	-
Provisions		**31**	
Total non-current liabilities		**31**	
Total liabilities		**433**	
Net assets		**18,854**	
Equity			
Contributed equity	3	**24,000**	
Accumulated losses		**(5,146)**	
Total equity		**18,854**	

The statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 11.

Statement of cash flows for the half-year ended 31 December 2004	**31 December 2004** **$'000**
Cash flows from operating activities	
Cash receipts in the course of operations	**77**
Cash payments in the course of operations	**(2,333)**
Interest received	**263**
Borrowing costs paid	-
Income taxes paid	-
Net cash used in operating activities	**(1,993)**
Cash flows from investing activities	
Payments for property, plant and equipment	(23)
Net cash used in investing activities	**(23)**
Cash flows from financing activities	
Proceeds from issue of shares (Note 3)	12,000
Consideration for taking on employee entitlements	86
Net cash provided by financing activities	**12,086**
Net increase in cash held	**10,070**
Cash at the beginning of the financial period	-
Cash at the end of the financial period	**10,070**

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 7 to 11.

1 Statement of significant accounting policies

Basis of preparation of the half-year financial report

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views. This half-year financial report does not include all the notes of the type normally included in an annual financial report and therefore is to be read in conjunction with the Amrad Corporation Limited Information Memorandum dated 5 July 2004 (Information Memorandum) in relation to the Spin-out of shares in Avexa Limited and any public announcements by Avexa Limited during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

This financial report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets. These accounting policies are consistent with those applied in the Information Memorandum.

The Company was incorporated on 7 April 2004, commenced operations on 1 July 2004 and was demerged from Amrad Corporation Limited on 7 September 2004 pursuant to the details contained in the Information Memorandum. Accordingly there are no prior period comparatives.

The following policies have been adopted by the Company throughout the period.

a) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Interest revenue
Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

b) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office (ATO) are classified as operating cash flows.

c) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

d) Taxation and Tax Consolidation

The Company adopts the income statement liability method of tax effect accounting.

d) Taxation and Tax Consolidation (continued)

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses, when realisation is virtually certain.

From commencement of operations on 1 July 2004 up to the 7 September 2004 effective date of the demerger, the Company was a member entity in the Amrad Corporation Limited tax-consolidated group. Consequently any current and deferred tax assets and liabilities of the Company prior to 7 September 2004 remain with the Amrad Corporation Limited tax-consolidated group (after elimination of inter-company balances) and the Company as a stand alone entity is only entitled and responsible for any such balances arising after 7 September 2004.

e) Acquisition of assets

All items of property, plant and equipment and intangible assets are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Intellectual property at cost represents the fair value of intangible assets acquired from Amrad Corporation Limited relating to the anti-infectives project portfolio transferred to the Company.

f) Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred and amortised over the period in which the related benefits are expected to be realised.

g) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present values, except where specifically stated.

h) Receivables

The collectability of receivables is assessed at reporting date and specific provision is made for any doubtful accounts. Trade receivables to be settled within contractual terms and conditions are carried at amounts due.

i) Leased plant and equipment

Leases under which the Company assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Payments made under operating leases are expensed on a straight line basis over the term of the lease.

The Company has no finance leases.

j) Depreciation and amortisation

All assets, including intangibles have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, taking into account residual values.

Assets are depreciated/amortised from the date of acquisition. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

j) Depreciation and amortisation (continued)

The annual depreciation/amortisation rates used for each class of asset are as follows:

- plant and equipment 20% to 40%
- intellectual property 50%

k) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

l) Employee entitlements

Annual leave
Liabilities for annual leave expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs.

Long service leave
The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using estimated future increases in salary rates including related on-costs and expected settlement dates based on turnover expectation and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

Periods of service with each employee's immediate former employer have been recognised by the Company as at the date of commencement of employment for those employees starting with the Company on 1 July 2004.

Incentive arrangement
Employee remuneration includes an at-risk component based on performance. Provision is made and a liability recognised for the amount approved within the annual budget for distribution pending the outcome of formal performance reviews.

Superannuation fund
The Company contributes to a defined contribution superannuation plan. Contributions are recognised as an expense as they are made.

Avexa employee share option plan
The Company operates a share option plan for employees, which permits the issue of options to ordinary shares to employees at no cost. 1,500,000 options having an exercise price of $0.40 were issued during the financial period at no cost. There have been no issues under the plan subsequent to reporting date.

m) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

n) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the Company for the reporting period, after exclusion of any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted for the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

o) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised or in the period of revision and future periods if the revision affects more than the current period.

	31 December 2004 $'000
2 Other Revenues from ordinary activities	
From operating activities	
- Interest income	**263**
Total other revenues	**263**

3 Contributed equity

(i) Issued and paid up capital	
80,312,000 ordinary shares, fully paid	**24,000**

The following movements in ordinary shares were recorded during the half-year ended 31 December 2004.

	Number of shares	$
Balance brought forward as at 1 July 2004	2	1
Consideration for the acquisition of intellectual property (i)	40,156,000	12,000,000
Issue of shares for cash consideration	40,156,000	12,000,000
Cancellation of initial opening capital	(2)	(1)
Balance carried forward as at 31 December 2004	**80,312,000**	**24,000,000**

(i) The intellectual property acquired at cost of $12,000,000 is being amortised on a straight line basis over a period of 24 months commencing in July 2004.

(ii) Options

There were 1,500,000 options to acquire ordinary shares issued during the half-year ended 31 December 2004 under and in accordance with the Avexa Employee Share Option Plan (ESOP). Each of these options has an exercise price of $0.40 and vests progressively over the five year life which expires on 30 June 2009. All of these options remain on issue as at the date of this report.

No options lapsed or were exercised during the period.

4 Segment information

The Company comprises a single business segment comprising anti-infective research and development and in a single geographical segment being that of Australia. Therefore the segment details are fully reflected in the results and balances reported in the Statements of Financial Position and Financial Performance.

5 Events subsequent to balance date

On 17 January 2005, Avexa entered into a Patent and Know How Licence Agreement (**Shire Licence Agreement**) with Shire Biochem Inc. (**Shire**). Under the Shire Licence Agreement, Avexa will take on full responsibility for the worldwide development of the Phase II HIV drug AVX754 (formerly SPD754) in accordance with an agreed development plan. Pursuant to the Shire Licence Agreement, Avexa also executed the Shire Option Deed on 17 January 2005 under which Avexa will grant an option to Shire (**Shire Option**). Under the Shire Option, Shire may acquire up to 4 million shares in Avexa exercisable after 17 January 2008. The Shire Option is subject to shareholder approval by the Company's shareholders which will be sought at a General Meeting. The exercise price is to be set in accordance with a pre-determined formula and the consideration for any exercise of these options is cash.

Separately, Shire has agreed to acquire shares in Avexa up to the value of $2 million for cash consideration subject to Avexa shareholder approval. .

Avexa is preparing a capital raising in order to enter a Phase IIb trial for AVX754 designed to demonstrate its efficacy in HIV-infected patients that have demonstrated resistance to therapy with 3TC (Lamivudine), a first line HIV therapy. The Phase IIb trial will examine two different doses of AVX754 and compare the drug to 3TC. It is expected that this trial will be conducted in Australia, with the first patient expected to be enrolled by the middle of the 2005 calendar year and results due in the first quarter of 2006.

Wilson HTM Investment Group has been retained to advise on the capital raising required for this trial.

6 Contingent liabilities and contingent assets

There are no known significant contingent liabilities or contingent assets as at the date of this report.

7 Impact of adopting Australian equivalents to International Financial Reporting Standards ("IFRS")

The Company is currently evaluating the key differences in accounting policies, identifying any changes to the Company's financial reporting systems and furthering evaluation of the financial impact arising from key differences in accounting policies that are expected to arise from adopting the Australian equivalents of IFRS.

For first time adoption of Australian equivalents of IFRS, the date of transition is 1 July 2004. Given that the company only commenced operations on this date, it is not envisaged that any opening balance adjustments will be required upon transition to IFRS.

It is anticipated that the key difference that will arise from adopting Australian equivalents to IFRS insofar as it affects the Company will be in respect of equity-based payments. Under AASB2 Share Based Payments, the Company will be required to determine the fair value of options granted to employees under the Avexa Employee Share Option Plan at grant date and to recognise an expense in the Statement of Financial Performance over the appropriate vesting period.

Directors' declaration

In the opinion of the directors of Avexa Limited ("the Company"):

(a) The financial statements and notes 1 to 7 set out on pages 4 to 11, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 31 December 2004 and of its performance, as represented by the results of its operations and its cash flows for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 31st day of January 2005.

Signed in accordance with a resolution of the directors.

Dr H Niall
(Chairman)

Independent review report to the members of Avexa Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Avexa Limited ("the Company"), for the half-year ended 31 December 2004.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Avexa Limited is not in accordance with:

(a) the Corporations Act 2001, including:

i) giving a true and fair view of the Company's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and

ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

B W Szentirmay
Partner

Melbourne, Victoria

31 January, 2005