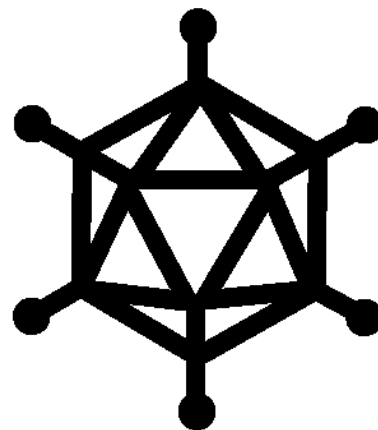


Issue 1 June 2005  
Quarterly News Report to Shareholders



**AVEXA**

NEWS



## Chairman and CEO's Letter

Dear Shareholders

Welcome to the inaugural edition of *Avexa News*, the first of Avexa's quarterly newsletters aimed at keeping shareholders well informed about the research and development activities and progress of the company.

As we approach the anniversary of Avexa's de-merger from Amrad Corporation Limited it is an ideal time to look back at the year's achievements as well as update investors on the company's current range of research activities.

We hope you find this publication informative and we welcome your feedback.

Yours sincerely

Dr Hugh Niall  
Chairman

Dr Julian Chick  
Chief Executive Officer

## Results of the Capital Raising

Earlier this year, Avexa successfully raised a total of A\$11.5 million. Initially, A\$2.4 million was raised via a placement to institutions and sophisticated retail investors. Avexa then raised A\$5.6 million through shares to new and existing retail and existing institutional shareholders, the company raised a further A\$1.5 million in oversubscriptions through a shareholder priority offer. Shire Pharmaceuticals took up A\$2 million worth of shares.

At a General Meeting, held in March, Avexa shareholders overwhelmingly approved the placement to complete the A\$11.5 million capital raising.

As a result, Avexa has successfully in-licensed the Phase II stage drug AVX754 from Shire Pharmaceuticals Group. The money will be used to fund the current Phase IIb trial that Avexa is undertaking, as well as prepare for a smooth transition to Phase III studies upon successful completion of the Phase IIb study.

## Timetable for the Next 12 Months

Annual Report

September 2005

Quarterly Avexa News

March 2006

Quarterly Avexa News

December 2005

Quarterly Avexa News

June 2006



In October 2004, Avexa partnered with the Shanghai Institute for Organic Chemistry in China. Left to right: Dr. Bao Jiang, Shanghai Institute Director, Dr. Jonathan Doolan, Avexa Chief Scientific Officer, Dr. Julian Chick, Avexa Chief Executive Officer, and Victorian Premier Steve Bracks were in China for the official opening of the new Shanghai facility.

## Collaborations

Since Avexa's de-merger from Amrad Corporation Limited and listing on the ASX in September 2004, the company has been busy progressing projects that add value to shareholders. Avexa continues to look for opportunities internationally that will leverage our existing skills and capabilities and provide additional drive for our programs by providing complementary experience and capabilities.

Since listing, Avexa has entered into a collaboration with the Rega Institute - part of the University of Leuven in Belgium - for potentially innovative HIV programs. The company continues to work with the Rega Institute to review its programs and look for projects where Avexa can contribute significantly. The Rega Institute has a long history of antiviral discovery and is world renowned for its research programs in the area of HIV.

In October of 2004 Avexa began working with the St Vincent's Institute of Medical Research in the area of computational chemistry. St Vincent's Institute of Medical Research is known for its expertise in computer-based chemistry. The collaboration program is focused on finding compounds that bind to the HIV integrase enzyme, preventing the function of HIV integrase and therefore stopping HIV from integrating into a patient's DNA.

In October 2004, Avexa partnered with the Shanghai Institute for Organic Chemistry in China to expand its research into a number of areas. Victorian Premier Steve Bracks officially opened the new Shanghai laboratory.

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## Conferences

In April this year, Dr Susan Cox, Avexa's Head of Virology and Project Leader for AVX754, was invited to speak at the 18th International Society for Antiviral Research in Barcelona, Spain.

Presentations made at this conference are usually by large or mid-sized pharmaceutical companies such as GlaxoSmithKline, Gilead, Novartis, etc, so Avexa was privileged to be offered a much sought-after opportunity and presented on AVX754 - the company's lead compound. The lecture provided data from the preclinical research program, describing the emerging profile of AVX754 along with data from the highly successful Phase IIa clinical trial in previously untreated HIV-infected patients.

The lecture was well received and provided Avexa the opportunity to present its data to the world's antiviral research community and other companies focussed on developing and marketing antiviral therapies.

Recently overseas, Dr Julian Chick presented to North American and European investors, industry leaders and global experts at the second annual Rodman & Renshaw Global Healthcare conference in Paris. More than 200 international emerging growth biotechnology companies presented at the conference on a range of topics including infectious diseases, cardiovascular disease, and oncology.

The presentation on Avexa was well attended and has helped to raise the profile of the company with overseas and institutional investors.

Avexa is also presenting at the upcoming BIO2005 Conference, to be held in June in Philadelphia. An annual event, BIO2005 is the world's largest biotechnology gathering and provides an opportunity for further international exposure of the company's programs.

# AVX754 Phase IIb Clinical Trial Underway

The Phase IIb trial will enrol approximately 60 patients who are currently failing first line therapy for HIV treatment. These patients also have certain relevant drug-resistant strains of HIV. Avexa will be working to demonstrate that AVX754 is the best drug in its class for the treatment of patients with these resistant strains of HIV.

AVX754 shows a very low level of toxicity and has little side effects. So far, AVX754 has been well tolerated in healthy volunteers and in HIV-infected individuals.

The Phase IIb trial is on schedule as the company begins to initiate the study. The preliminary results are expected in the first quarter of the calendar year 2006.

## Phase IIb to Phase III

Data obtained from the Phase IIb trial for which Avexa has raised the required funds, will enable the company to generate some important data to facilitate Phase III clinical trials.

## Projects

### Hepatitis B

Avexa's Hepatitis B project continues to progress, and is currently undertaking proof-of-concept studies. Results from these studies are due later this month and upon successful results, Avexa will begin to take the project into a Phase I trial.

### HIV Integrase

Avexa is currently optimising potential drug candidates from several series of compounds. The aim is to isolate a lead compound that has good activity in stopping the reproduction of HIV viruses, is very safe, and which is efficiently absorbed into a patient's body and distributed to the organs where it is most needed. Once such a candidate has been identified it will be progressed to studies which will determine how likely the compound is to be effective in the treatment of AIDS.

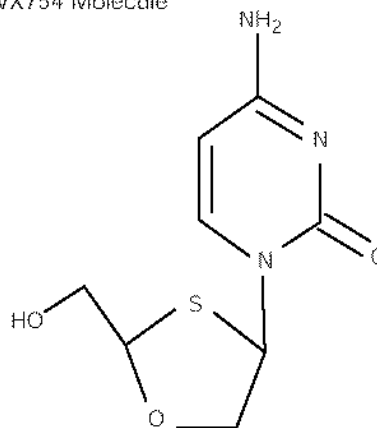
HIV integrase is a protein that the virus uses to insert its genes into human cells.

## On Dr James Sawyer and AVX754

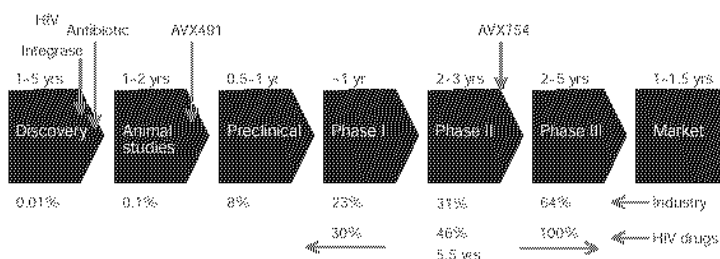
Dr James Sawyer is a UK-based clinical trials consultant who has been involved with a number of international pharmaceutical companies, including Roche Pharmaceuticals and the flu drug, Tamiflu. James worked with Shire Pharmaceuticals on AVX754 for the past three years and is currently assisting Avexa with further clinical development of this compound.

On a recent visit to Australia, Dr Sawyer said he believes that in terms of where the project is now and what we know about AVX754 it has an 80 per cent chance of success. More interestingly, he believes that after the successful completion of the company's Phase IIb trial, the probability of AVX754 being commercially marketed is greater than 90 per cent, based on the positive statistics on HIV drugs entering Phase III trials.

The AVX754 Molecule



Drug Development Pathway and the Position of Avexa's Current Projects





## Financials

Below are this year's half yearly Financial Results, released in January.

### Statement of Financial Position as at 31 December 2004

31 December 2004  
A\$'000

#### Current assets

Cash assets	10,070
Receivables	55
Other	142
<b>Total current assets</b>	<b>10,267</b>

#### Non-current assets

Receivables	-
Property, plant and equipment	20
Intangibles	9,000
Deferred tax assets	-
<b>Total non-current assets</b>	<b>9,020</b>
<b>Total assets</b>	<b>19,287</b>

#### Current liabilities

Payables	307
Current tax liabilities	-
Provisions	95
<b>Total current liabilities</b>	<b>402</b>

#### Non-current liabilities

Deferred tax liabilities	-
Provisions	31
<b>Total non-current liabilities</b>	<b>31</b>
<b>Total liabilities</b>	<b>433</b>
<b>Net assets</b>	<b>18,854</b>

#### Equity

Contributed equity	24,000
Accumulated losses	(5,146)
<b>Total equity</b>	<b>18,854</b>

## Drug-resistant Antibacterial

In January of this year, Avexa announced it had received encouraging independent *in vitro* data on its series of antibacterial compounds and the project continues to progress well. The data showed that several of these compounds were able to stop the reproduction of bacteria that are resistant to current antibiotics. The compounds were screened against eight strains of bacteria that had been isolated from patients with chronic drug-resistant infections.

## Current Product Pipeline

Disease Indication	Research	Lead Compound	Pre-clinical	Phase I	Phase II	Phase III
HIV	AVX754 - NRTI					
Hepatitis B	Non-nucleoside					
HIV	HIV Integrase					
MRI	Antibiotic					



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#### Editor's Note

We value shareholder feedback.  
Your comments can be emailed to:  
feedback@avexa.com.au

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