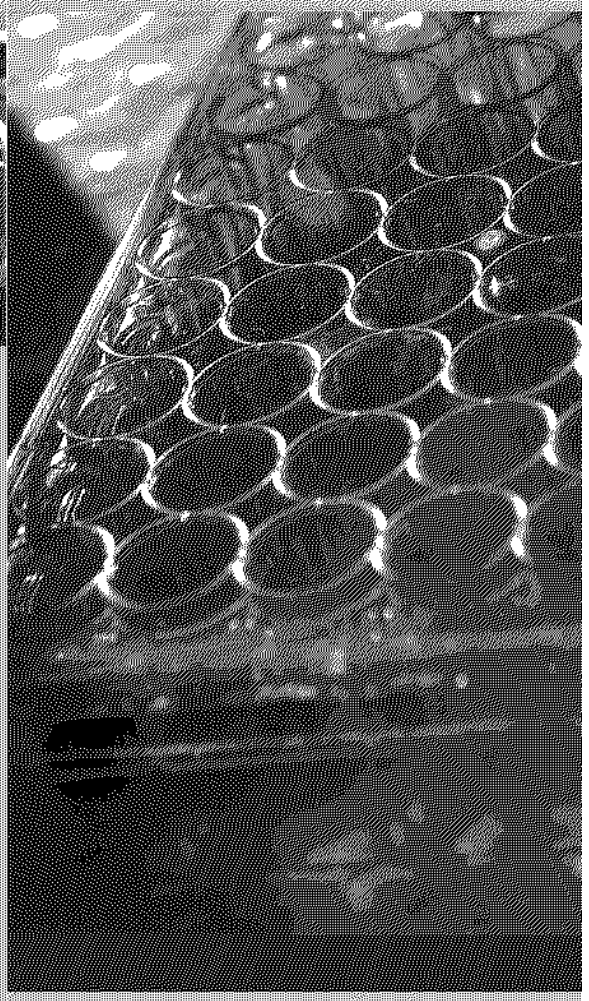
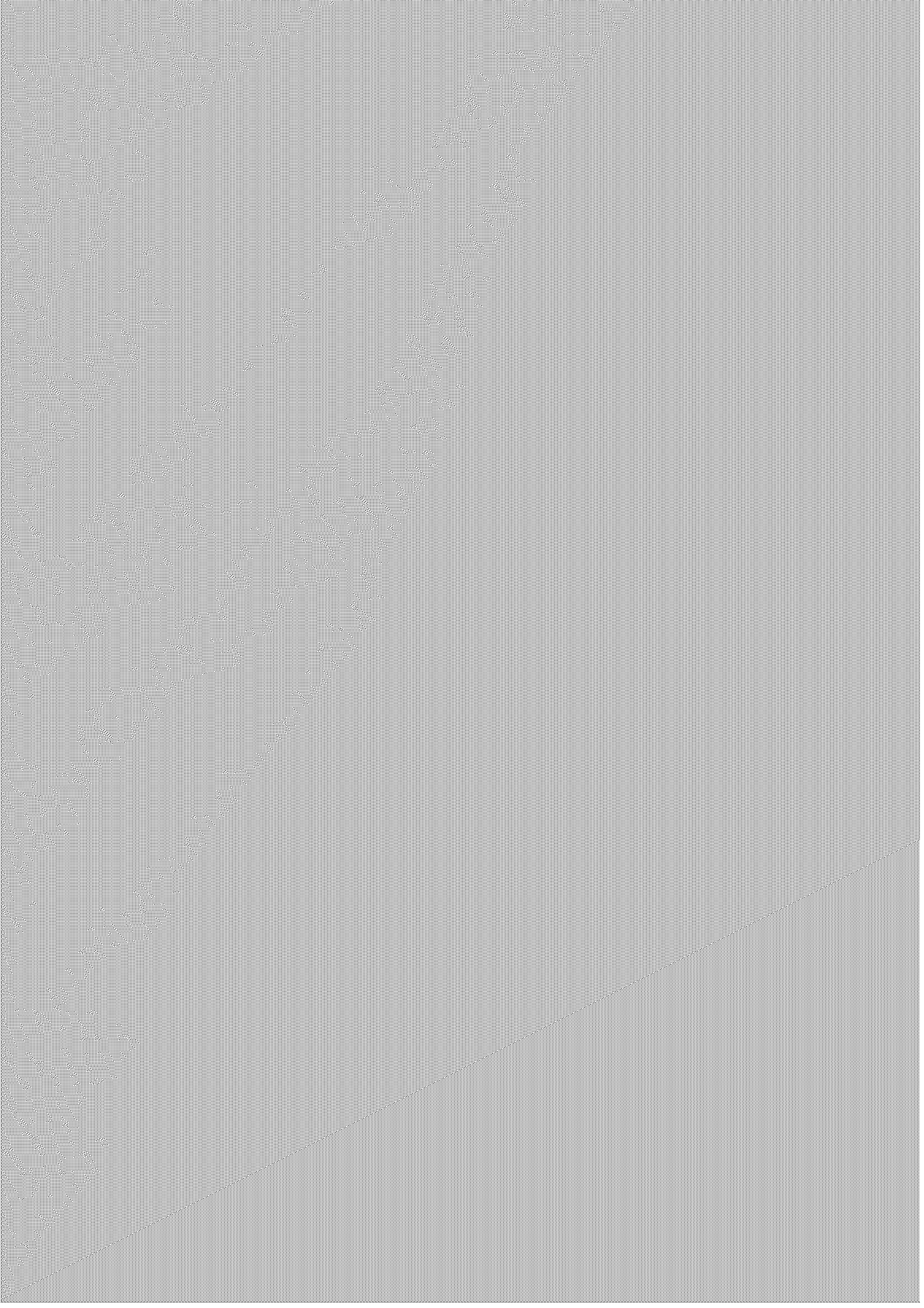


ANNUAL REPORT 2005

AVEXA



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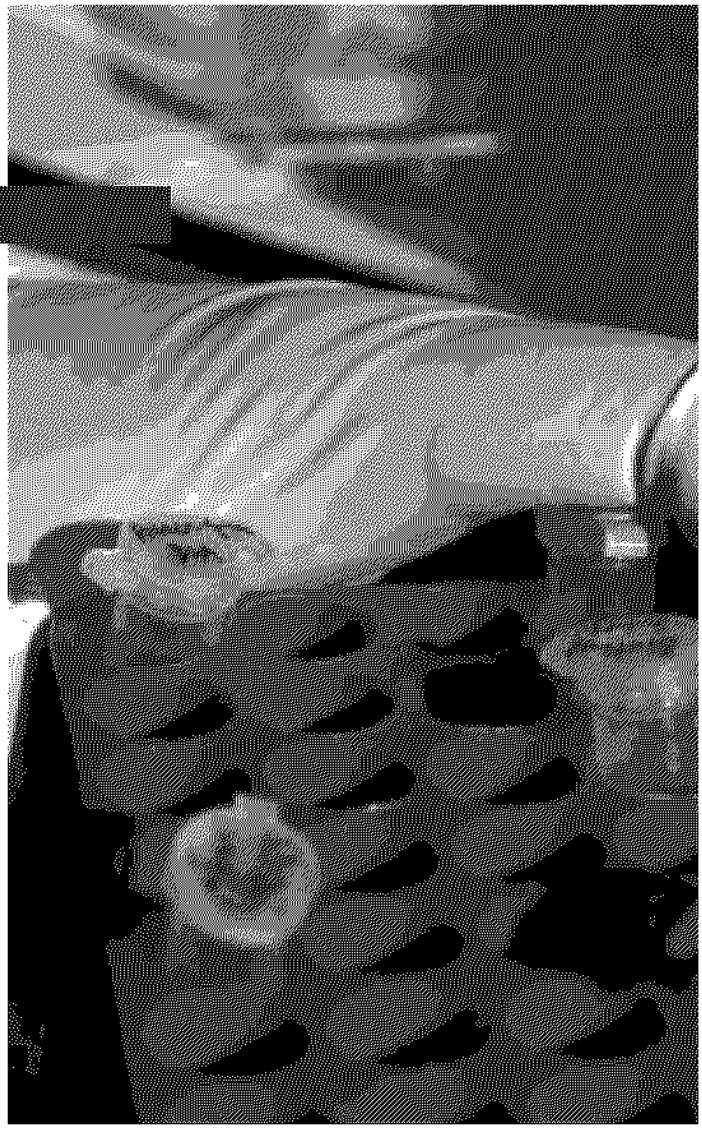
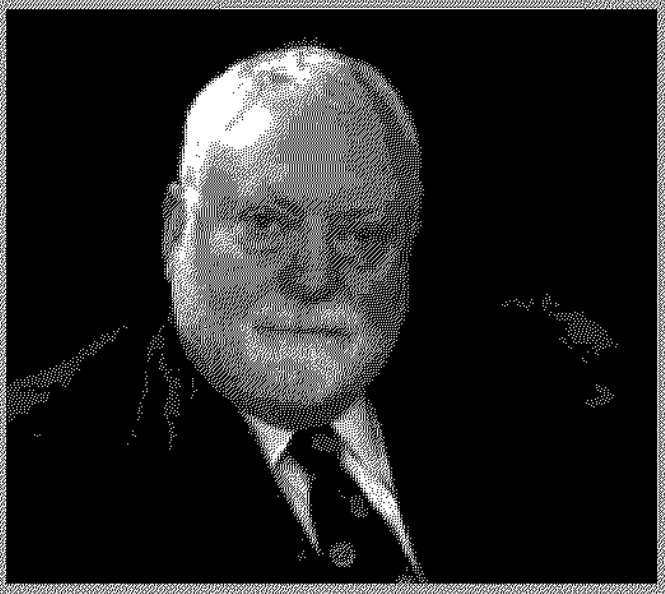


Avexa Highlights for 2004-05

- Listed on the Australian Stock Exchange on 23rd September 2004.
- In-licensed AVX754 from Shire Pharmaceuticals, a project currently in Phase IIb studies and expected on the market in 2009.
- Completed a $11.5 million capital raising to fund the Phase IIb HIV clinical trial.
- Achieved successful *in vitro* data for its antibacterial program targeting drug-resistant bacterial infections.
- Took an option to review HIV focused programs from the Rega Institute in Belgium.
- Entered China for medicinal chemistry resources via the Shanghai Institute of Organic Chemistry.

CHAIRMAN & CEO'S REPORT



Dr Hugh Niall, Chairman

Dr Julian Chick, Chief Executive Officer

Dear Shareholder

The past financial year has been an exciting and productive one for Avexa Limited. Since listing on the Australian Stock Exchange in September last year, we have made significant progress, achieving a number of important milestones.

Earlier this year, Avexa in-licensed the Phase II HIV drug AVX754 from global specialty pharmaceutical company Shire Pharmaceuticals Group. We believe that by bringing in a later stage project we create an opportunity to be part of a project that successfully markets a drug, potentially generating revenue for the Company in the foreseeable future.

Avexa is currently in a Phase IIb clinical trial with AVX754. So far AVX754 has shown to be well tolerated, shows a very low level of toxicity and has little side effects in healthy volunteers and HIV-infected patients. Preliminary results from this trial are expected early in 2006. The trial is designed ultimately to position AVX754 as the drug of choice for the growing numbers of HIV patients that have become resistant to the more common first-line combination treatments, thereby creating a potentially strong market opportunity.

In March 2005, Avexa raised $11.5 million through an offer of shares to new and existing retail and institutional shareholders. With a majority of these funds to be used in the Phase IIb trial for AVX754, the Company is positioned to rapidly move into a Phase III trial, assuming Phase IIb trial success. AVX754 is now under Investigational New Drug status in the United States and has received fast-track approval from the US Food and Drug Administration. It has also had a similar review by European regulatory authorities.

The Company has progressed its range of other projects which also have the potential to add value to shareholders. Avexa is continuing to look for opportunities internationally where we can use our existing skill base to complement other projects. Our partnership last year with the world renowned Rega Institute in Belgium is proof of our capabilities particularly with HIV research. In October 2004 we entered into a collaboration with St Vincent's Institute of Medical Research in Melbourne in the area of computer-based chemistry and HIV. We also partnered with the Shanghai Institute of Organic Chemistry and were delighted to have Victorian Premier Steve Bracks officially open the new laboratory in China.

In other projects, the Company is focused on developing a drug that will address the enormous medical threat from drug resistant bacterial infections, commonly referred to as 'superbugs'. The Company has compelling data about its research into antibiotic resistance, predominantly against bacteria grown in the laboratory.

In June of 2005 the Company reached a milestone by completing a proof-of-concept study for its Hepatitis B virus program. The results from that study were inconclusive and now the Company is exploring ways to extract value for shareholders from the program and potentially progress it into clinical trials.

The Company's HIV integrase project is progressing well with Avexa currently working to optimise potential drug candidates from several compounds. The aim is to find a compound that has good activity in stopping the reproduction of HIV viruses, is safe and effectively absorbed by the patient.

Management has also been active over the past few months attending a variety of international scientific conferences and symposiums. Events in Barcelona, Paris and Philadelphia have enabled the Company to highlight its technology on the international stage.

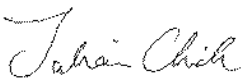
Avexa is a dynamic company in a vibrant sector of the market. As a listed entity we know that our success depends on commercialisation of our research and development. This takes time. Consequently, investment in the biotechnology sector should not be with a short term focus. It takes years of research and approvals before drugs are available to patients. Potential rewards are enormous, but they take time and much effort.

We take this opportunity to thank the people behind the scenes at Avexa for their hard work and commitment. Without the dedication and teamwork of our scientists, administration people and management we could not have progressed as quickly and as effectively on multiple projects as we have over the past year.

Avexa has a bright future. We have a number of significant research and development activities that have the potential to satisfy global unmet medical needs. We look forward to the challenges and opportunities over the next 12 months and beyond.

Yours sincerely

Dr Hugh Niall
Chairman



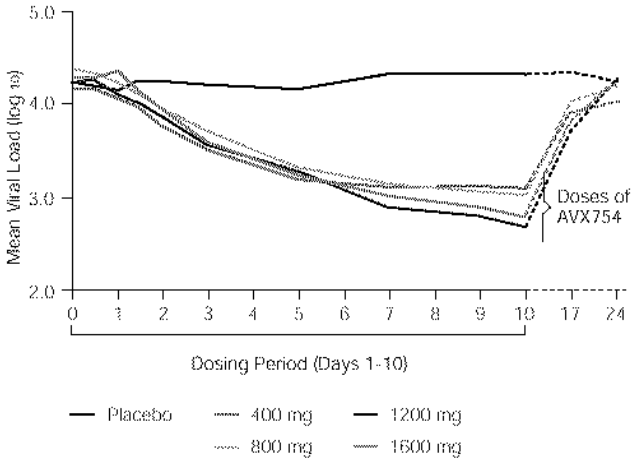
Dr Julian Chick
Chief Executive Officer

R&D REPORT

AVX754 – Drug Overview (Phase II)

AVX754 inhibits replication of the HIV virus in infected patients. It stops the HIV virus from replicating by preventing the virus from copying its genetic material. The drug has successfully completed four Phase I studies in healthy volunteers and a Phase IIa study in 63 HIV-infected patients. Approval has been received for an Investigational New Drug (IND) filing – a US Government review process that enables companies to advance a potential drug into clinical trial – with a similar review completed in Europe by the EMEA (European Agency for the Evaluation of Medical Products). AVX754 has also received fast-track approval from the US Food and Drug Administration (FDA).

Monotherapy in Treatment-Naïve Patients



Avexa is aiming to position AVX754 as a drug of choice for patients failing first-line therapy.

Laboratory results show that AVX754 is effective against various strains of drug resistant HIV which means AVX754 has the potential to treat patients that are failing their existing HIV treatments. Furthermore, safety testing shows that this drug has a very safe profile, an important aspect in treating all patients.

Even though there are currently 11 nucleoside reverse transcriptase inhibitors (NRTIs) on the market, Avexa believes there remains an ongoing demand for new drugs, particularly those that are effective against resistant virus strains and/or have an improved side effect profile. Avexa believes that AVX754 will meet both of these needs.

Unfortunately 20-50 per cent of treatment-naïve patients – those patients who have not been on HIV drugs before – and up to 70 per cent of treatment-experienced patients will develop resistance to their medication which is characterised by an increase in the level of virus in their blood. By positioning AVX754 as a first-line, second regimen therapy for HIV patients, Avexa will fill an unmet medical need, and also fill an unmet market opportunity in the treatment of HIV-infected patients.

A successful Phase IIb trial is aimed at positioning AVX754 as the leading therapy for patients that are failing the first line of therapy used in the treatment of HIV. In particular AVX754 will target the treatment of patients with the HIV strain M184V, which is a drug-resistant mutated strain that results from the treatment of patients with two of the most common current first-line therapies.

The goal is to position AVX754 as a first-line treatment for patients who fail their initial treatment rather than as just another NRTI on the market.

The AVX754 project is presently focussed on completing this Phase IIb clinical study in drug-resistant HIV-infected patients. Preparations to continue development of AVX754 towards Phase III trials, assuming positive results in the Phase IIb proof-of-concept study, will also be initiated to ensure a smooth and timely progression.

In 2003 HIV drug sales reached US$5.7 billion, with NRTIs representing 59 per cent, or US$3.3 billion of these sales[1], and drugs like Combivir® (launched in 1997) generating over US$930 million in worldwide sales in 2004. AVX754 is in the same class as other NRTIs, such as Combivir®, Zerit®, Videx® and Epivir®.

1. Datamonitor – Commercial Insight HIV, 01/2005.

R&D REPORT

CONTINUED

Steps in the HIV Replication Cycle

Step 1
The attachment and release of the HIV core into the host cell.

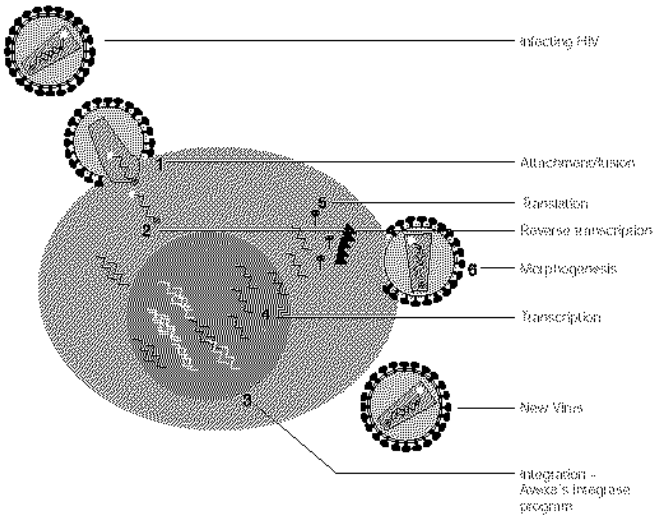
Step 2
The transcription of viral RNA into DNA creating 'provirus'.
The target of AVX754.

Step 3
The random site integration of the provirus into the host DNA.
The target for Avexa's HIV integrase program.

Step 4
Transcription of host DNA producing new viral RNA.

Step 5
Translation of the HIV RNA in the cytoplasm.

Step 6
Morphogenesis of the new virus.



HIV Integrase (Discovery)

Avexa's HIV integrase program is focussed on discovering compounds that inhibit the enzyme HIV integrase. As the name suggests integrase helps the virus integrate into the human DNA. Avexa is ideally positioned to be one of the leaders in the field of HIV integrase inhibitors because of its knowledge of HIV and internal expertise in the area. There are no drugs on the market that directly target HIV integrase and the Company has an opportunity to develop one of the first HIV integrase inhibitors to be commercialised. Currently, there are only two HIV integrase inhibitors known to be in clinical trials.

HIV integrase inhibitors represent an entirely new class of compounds for the treatment of HIV. Due to the novel mode of action they have the potential to be used in combination with existing therapies and transform the treatment of HIV in a similar way to the introduction of the protease inhibitors in the late 1990s.

Avexa is working on a novel series of compounds that aim to inhibit the HIV integrase enzyme. These compounds are different from other integrase inhibitors previously described. Avexa's HIV drug development program targets resistant strains of HIV with this new class of drug. A significant proportion of long-term patients have become resistant to most or all of the drugs administered to them. This is important as improvements in the survival time of persons infected with HIV create an ongoing need for new therapies.

Working with the medicinal chemistry resources of the Shanghai Institute of Organic Chemistry in China, and with Avexa's Australian collaborators, Avexa is working to optimise its series of compounds using medicinal chemistry, *in vitro* and *ex vivo* absorption, distribution, metabolism and excretion (ADME) and pharmacokinetic studies. Avexa incorporates the techniques of *in silico* docking and protein crystallography into its program to direct the optimisation process and thus accelerate the identification of the final lead compound. Avexa anticipates that its lead compound will enter into animal studies by the end of 2005.

Avexa has prepared data for multiple filings on composition of matter for novel HIV integrase inhibitors.

AVX491 – Drug Overview

Hepatitis B virus (HBV) is a virus that infects the liver. Unlike HIV, there are fewer classes of drugs on the market or in development for the treatment of Hepatitis B. The main class of HBV-specific drugs comprises the nucleoside and nucleotide analogues, of which Zeffix® (3TC), Hepsera® (adefovir) and Baraclude® (entecavir) currently have marketing approval. Several other similar analogues are presently in late stage clinical trials. This class of drugs inhibits DNA polymerase, an enzyme required for HBV to replicate.

Avexa has discovered a series of novel inhibitors of HBV replication (AVX491 Class) which targets a different step in the replication of HBV compared to the inhibitors currently on the market or known to be in development. Avexa's lead compounds have activity against strains of HBV that are resistant to one of the main drugs currently in use (Zeffix®). It is also highly likely that they are active against strains of HBV that are resistant to Hepsera® and Baraclude®, the other main drugs used to treat Hepatitis B. As Avexa's lead compounds target a different step in the replication, they have the potential to complement the existing on-market drugs as well as others in development.

Earlier this year Avexa announced that it was unable to generate significant blood levels of drug in its proof-of-concept study and therefore could not determine antiviral activity. The project is under review and the Company will aim to create ways to extract intellectual property value from the project.

An Antibiotic to Treat Drug-Resistant Bacterial Infections

The development of antibiotic resistance has resulted in continued market opportunities for novel compounds which act against these resistant strains of bacteria. Cases of resistance to vancomycin, the present drug of last resort for serious bacterial infections, are becoming more frequent. Moreover, the spread of Staphylococcal bacteria which are resistant to methicillin and cause serious hospital acquired infections is of immediate concern, particularly in Europe.

In the past 12 months Australia has also seen outbreaks of drug-resistant bacterial infections such as the highly publicised outbreaks in Sydney in May 2005.

Avexa is pursuing a unique approach to overcoming the problem of vancomycin and methicillin resistance. The Company is synthesising compounds that target the altered part of the vancomycin-resistant strain of bacteria which gives rise to resistance. These compounds are synthesised in collaboration with the University of Wollongong, and have been supported in part by several Australian Research Council and National Health and Medical Research Council grants. These compounds show anti-bacterial activity that is equal, or close, to that of vancomycin in drug-sensitive strains of *Staphylococcus aureus* (a bacterium, the so-called 'golden staph') and show activity against vancomycin-resistant *Enterococcus faecium*, a bacterium that can cause serious infections and has been shown to be resistant to current antibiotics. Importantly, these compounds show activity either equal to or better than vancomycin against vancomycin semi-resistant strains of *S. aureus*.

Validation of the successful approach taken by the Avexa program was announced on 11 January 2005 where it was reported that independent results showed the Avexa series of compounds have activity against other bacteria, such as *S. aureus* (both methicillin-resistant and vancomycin-intermediate sensitive strains of *S.aureus*), which had been isolated from hospital strains that are resistant to currently available drugs.

Two classes of inhibitors are currently being optimised via strategies which include synthesis and testing of analogues for patent purposes, pharmacokinetic studies, and modelling and structural studies.

Further *ex vivo* and *in vivo* pharmacokinetic and ADME data are being generated as a predictive measure to enable selection of the lead compound. Planning of an *in vivo* efficacy model for the lead series is underway and the program is on track for a lead compound to enter animal trials by the end of 2005.

Patents have been filed in 2001 and 2005 covering the composition of matter of two distinct and novel classes of compound in this field.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Avexa Limited recognises the important role that effective corporate governance practices can play in the management of the business of a company and the creation of value for the Company's shareholders. As a result, Avexa and the Board are committed to achieving and maintaining a high standard of corporate governance that is tailored to suit, among other matters, the size of the Company and its business and the characteristics of the industry of which it is a part.

A description of the Company's main corporate governance practices and policies is set out in this Statement. In certain instances, the Company's approach has been to address the objectives underlying the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (the ASX Recommendations) without strictly complying with the letter of the Recommendations. Accordingly, while Avexa has adopted a number of the ASX Recommendations, it has not followed others. The instances in which the Company's practices depart from the ASX Recommendations are described and explained in this Statement.

The Board will continue to review and assess the Company's corporate governance practices and policies as the Company's business evolves and grows over time.

The Board of Directors

The Avexa Board is responsible for, and has the authority to determine, all matters relating to the strategic direction, policies and practices of Avexa. Part of the Board's role in this regard is to establish goals for Senior Management and for the operation of the Company.

In defining its roles and responsibilities, the Board has not adopted a formal charter, but instead has had regard to the Constitution of Avexa and to the categories of matters that are commonly understood to be within the province of a company board. The Board's specific responsibilities and functions include:

- oversight of the Company, including its control and accountability systems;
- appointing, removing and approving remuneration for the Chief Executive Officer;
- input into and final approval of the corporate strategy, business plans, budgets and performance objectives developed by Senior Management;
- monitoring Senior Management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, budgeting, operations and acquisitions and divestitures;
- approving communications with shareholders and announcements to the Australian Stock Exchange;
- reviewing and ratifying systems of risk management, internal compliance and control and legal compliance; and
- approving and monitoring financial and other statutory reporting and compliance matters.

The Board has approved a formal delegation to the Chief Executive Officer and other Senior Management of day-to-day authority over the operations of Avexa's business.

Board Composition

The Board currently consists of three Directors:

- Dr Hugh Niall (Chairman);
- Ms Helen Cameron; and
- Dr Julian Chick.

Details of each Director's relevant skills, experience and expertise and his or her term of office, in each case as at the date of this Annual Report, are set out later in this report. As is noted in the Directors' Report, Ms Cameron is also a Director of Amrad Corporation Limited (Amrad), which is a substantial shareholder of Avexa, and Dr Chick is the Chief Executive Officer of Avexa.

The Board has considered the independence of each of the Avexa Directors within the framework of the guidance set out in Box 2.1 of the ASX Recommendations, and has classified Dr Niall only as independent. Consequently, while the Chairman of the Board is an independent Director, a majority of the Board are not independent Directors.

While the Board acknowledges the important contribution that independent Directors can make to a company's board, the Board believes that both Ms Cameron and Dr Chick bring qualities to the Board that greatly enhance its effectiveness. Avexa's business was included within Amrad's business until July 2005. In her capacity as a Director of Amrad since 1997, Ms Cameron has an understanding of the history and development of Avexa's business. In any event, Ms Cameron does not participate in any Board deliberations that relate to Amrad. In Dr Chick's case, he has an intimate knowledge of both the history and the current operations of the Company by virtue of his former position as a Senior Amrad Business Development Executive and his current position as the Company's Chief Executive Officer.

The Board is actively seeking appropriate candidates for additional Non-Executive Directors to increase the number of independent Directors.

The Board believes, however, that the benefits that may come from having additional independent Directors must be balanced against the advantages of maintaining a small board. In the view of the Board, a small board facilitates efficient decision making and is appropriate for a company of Avexa's size. The Board will continue to assess its composition as opportunities arise from time to time to adjust the mix of skills, experience and perspectives represented on the Board.

Each Director of Avexa has the right to seek independent professional advice at the Company's expense with the approval of the Chairman. Each Director is also indemnified under the Company's Constitution and under separate deeds of indemnity.

Board Remuneration and Performance Evaluations

The Company Constitution and the ASX Listing Rules require the total amount of remuneration payable to Non-Executive Directors to be approved by shareholders by ordinary resolution at a general meeting. The Company shareholders have not previously approved the remuneration payable to Directors and a resolution seeking the requisite approval will be put to shareholders at the Company's 2005 inaugural Annual General Meeting.

The Board currently consists of three Directors, one of whom is an Executive Director. The Board anticipates that over the next 12 months up to two independent Non-Executive Directors may be appointed. In order to provide for the remuneration to be payable to these new Directors in addition to the current Non-Executive Directors (one of whom acts as Chairman), a resolution will be submitted to shareholders at the 2005 Annual General Meeting to approve the total remuneration payable to Non-Executive Directors to be set at an upper limit of a total of $350,000 per annum.

As at the date of this Annual Report, the remuneration for Non-Executive Directors consisted only of Director's fees and contributions to superannuation. Details of the remuneration for each Non-Executive Director during the reporting period are included in the remuneration report.

While the Board did not conduct a formal performance evaluation of itself or its members during the reporting period, it has reviewed the Board's composition and the current mix of skills, experience and perspectives of its members. The Board is committed to future annual reviews of its performance, both individually and collectively, against both measurable and qualitative factors.

Board Committees

The Board has established an Audit and Risk Committee, which in general is responsible for any matters relating to the assets and financial affairs of Avexa and to the Company's external or internal audit functions. The Audit and Risk Committee's specific responsibilities include:

- monitoring and reviewing the integrity of financial statements and the effectiveness of internal financial controls;
- making recommendations to the Board in relation to the appointment of external auditors and approving the remuneration and terms of their engagement;
- reviewing risk management and internal compliance and control systems; and
- monitoring and reviewing the independence, objectivity and competency of internal and external auditors.

The Audit and Risk Committee's charter is posted on the corporate governance section of Avexa's website.

The members of the Audit and Risk Committee are:

- Ms Helen Cameron (Chairman); and
- Dr Hugh Niall.

Details of Ms Cameron's and Dr Niall's qualifications and attendance at Audit and Risk Committee meetings are set out in the Directors' Report. Dr Chick is entitled to attend meetings of the Audit and Risk Committee in an ex-officio capacity only.

The composition of the Audit and Risk Committee does not follow the ASX Recommendations in that it has two rather than three members, its Chairman is not an independent Director and a majority of its members are not independent Directors. In selecting the membership of this committee, however, the Board has been constrained by the size and composition of the Board itself.

The Board requires the Chief Executive Officer of Avexa and the contracted Chief Financial Officer to provide written assurances to the Board in respect of the accuracy and compliance of Company financial reports as part of the management sign-off process for Avexa's half year and full year financial statements.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

The Board does not have a nomination committee or a remuneration committee, as the Board does not consider formal committees to be necessary in these areas in light of the small size of the Board and of Avexa. All matters in relation to potential new Directors or remuneration are considered by the full Board (except that Dr Chick does not participate in any deliberations in respect of his own remuneration).

Other Corporate Governance Practices and Policies

Avexa has written policies and procedures in respect of trading in the Company's securities and compliance with the Company's continuous disclosure obligations. These policies and procedures are posted on the corporate governance section of Avexa's website. Avexa's securities trading policy prohibits the trading of Company securities by Directors and employees while in possession of price sensitive information.

The Company does not have any formal code of conduct governing unethical practices or compliance matters, or any formal policies on risk oversight and management. Instead, the Company has individual policies covering matters such as confidentiality, conflicts of interest, fraud risks and employee discrimination and harassment. Avexa employees, contractors and consultants are made aware of these policies through the employees' policies and procedures manual.

External Auditors

KPMG has been Avexa's external auditor since the Company's incorporation in April 2004. KPMG meets with the Audit and Risk Committee at least four times each year. KPMG will be requested to attend the Annual General Meeting and to be available to answer shareholder questions about its audit of the Company's financial statements.

Information on procedures for the selection and appointment of the Company's external auditor is posted on the corporate section of the Company's website.

Shareholder Communications

The Board is committed to keeping shareholders fully informed of Avexa's activities through regular and timely communications with all shareholders. As part of this commitment, the Company distributed its inaugural Quarterly News Report to Shareholders on 1 June 2005, and posts various information, including Company announcements, media briefings, details of general meetings, press releases and financial reports, on the Company's website. Avexa also communicates with its shareholders through its Annual Report, which will be issued to all shareholders and posted on the Company's website.

Executive Remuneration

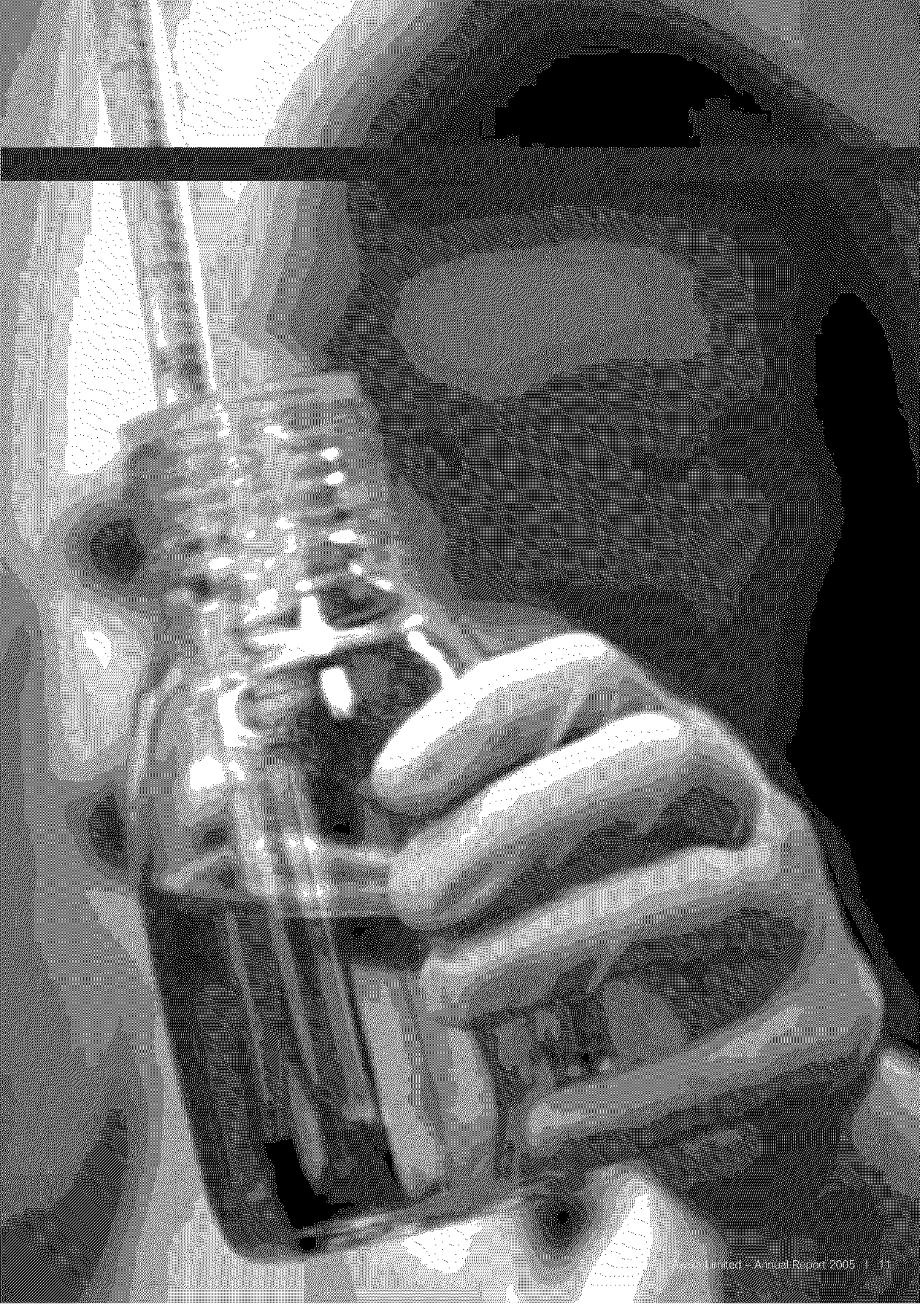
Company remuneration policies and practices including details of options issued under Avexa's Employee Share Option Plan are set out in the remuneration report. A copy of the Employee Share Option Plan is posted on the corporate section of the Company's website.

Shareholder approval will be sought at the 2005 Annual General Meeting to issue 600,000 options to Dr Chick under the Employee Share Option Plan in accordance with the terms of Dr Chick's remuneration arrangements upon his appointment as Chief Executive Officer of the Company. Each option will confer a right upon Dr Chick to subscribe for one fully paid ordinary share in Avexa at the exercise price of $0.40. The options will vest progressively over four years from the date of issue: 40 per cent on the date of issue; 20 per cent on the second anniversary of the date of issue; 20 per cent on the third anniversary of the date of issue; and 20 per cent on the fourth anniversary of the date of issue.

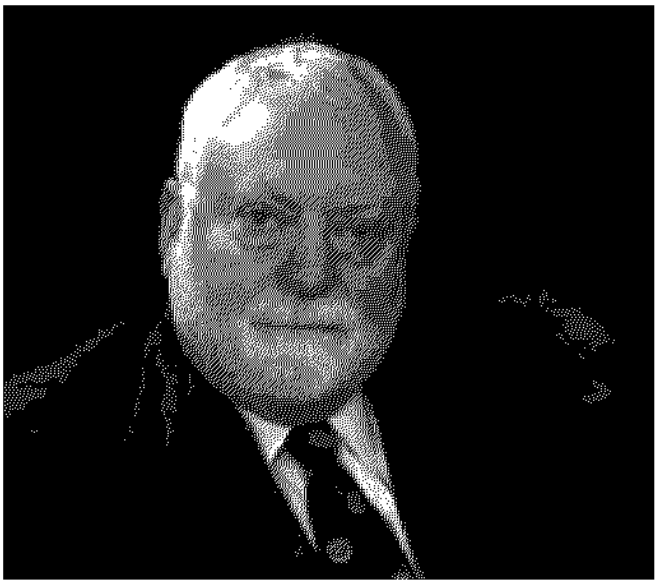
Corporate and individual performance targets have been established by the Board for Avexa's Chief Executive Officer, Dr Chick, as part of his remuneration arrangements. Accordingly, shareholder approval will also be sought at the 2005 Annual General Meeting for the proposed further issue of a total of 500,000 options to Dr Chick under the Employee Share Option Plan in connection with the performance targets achieved during the financial year ending 30 June 2005 by Dr Chick in his role as the Company's Chief Executive Officer and Head of Business Development. The exercise price for these options will be 20 per cent above the weighted average trading price of an Avexa share on the first five business days of the financial year ending 30 June 2006. The options will vest progressively as follows: 50 per cent on 1 July 2006 and the remaining 50 per cent on 1 July 2007.

All of the options referred to above will expire on 30 June 2010. Further, if shareholders do not approve the issue of these options to Dr Chick, Avexa is required to ensure that Dr Chick is provided with alternative benefits of an equivalent after-tax value to him.

Particulars of the remuneration of the Chief Executive Officer, Dr Chick, and Senior Management for the period 1 July 2004 to 30 June 2005, including all monetary and non-monetary components, are set out in the remuneration report.



AVEXA BOARD



Dr Hugh Niall MB, BS, MD (Melb.) FRACP

Non-Executive Chairman

Dr Hugh Niall became Chairman and a Non-Executive Director of Avexa on 23 September 2004. He has many years experience in the biotechnology industry in Australia and the United States. He is presently Chief Executive Officer of the Australian Stem Cell Centre Limited (ASCC) and a member of its Board. The ASCC is Australia's Biotechnology Centre of Excellence, established by the Australian Government to fund research on stem cells and tissue repair and to commercialise the outcomes of this research.

Prior to his role at the ASCC, Dr Niall was the Chief Executive Officer of Biota Holdings Limited from 1995-2002. Biota is a research-oriented public company based in Melbourne, whose focus is the discovery and development of new human pharmaceuticals in the areas of virology and inflammation.

After completing his medical degree and obtaining post-graduate qualifications in medicine at the University of Melbourne, Dr Niall worked overseas at the National Institutes of Health, Bethesda, Maryland, USA and at Harvard University. Dr Niall has also held senior appointments with the Howard Florey Institute of Experimental Physiology and with Genentech Inc, a major biotechnology company in South San Francisco where he was Vice President of Research Discovery and an Officer of the Company. He is the Chair of the Investment Committee of the Genesis Fund of GBS Venture Partners Limited, Chair of the Diabetes Vaccine Development Centre and a Director of Ausgenics Pty Ltd.

Dr Julian Chick BSc (Hons), PhD (La Trobe)

CEO and Executive Director

Dr Chick was appointed as Chief Executive Officer and Executive Director of Avexa on 7 September 2004. He graduated with a PhD in Muscle Physiology from La Trobe University in 1998 and joined Amrad Corporation Limited as a Senior Business Development Manager in April 2002. Prior to joining Amrad Corporation Limited, Dr Chick had five years experience as an investment adviser and financial consultant with Prudential-Bache Securities, BNP Paribas and Salomon Smith Barney. Dr Chick also spent time working for Foursight Associates as the principal analyst reviewing investment opportunities for private equity investors and venture capitalists.

Ms Helen Cameron BSc, MBA, FTCL

Non-Executive Director, Chair Audit Committee

Ms Cameron is a professional company Director with many years experience in Corporate Finance, both in public companies and equity capital markets. Prior to becoming a company director she was a financial analyst and associate Director of Deutsche Bank and was Head of Research at BNP Equities (Australia) Limited. Ms Cameron has held Senior Management positions with National Foods Limited and Burns Philp & Co Ltd. She is currently a Director of Amrad Corporation Limited, Rural Industries Research & Development Corporation and the family investment company Calisar Pty Ltd. She has held directorships with a number of other organisations, including TDG Logistics, BBY Limited, Foodbank NSW, Foodbank Australia, Grains Research & Development Corporation, the CRC for Sustainable Rice Production, and the Sydney Catchment Authority. Ms Cameron obtained her BSc from the University of Canterbury New Zealand, and her MBA from Macquarie University, New South Wales. She is an occasional lecturer in corporate governance at the Company Secretaries Institute in New South Wales.

SENIOR MANAGEMENT TEAM

Dr Jonathan Coates BSc (Hons), PhD (Glasgow)

Chief Scientific Officer

Dr Coates obtained his PhD from Glasgow University and has more than 24 years experience in antiviral drug discovery in the pharmaceutical industry. He spent 15 years in the UK at Glaxo Group Research and later Glaxo-Wellcome, where he filled various senior research roles and was one of the inventors of the anti-viral drug 3TC (Epivir® for HIV and Zeffix® for HBV). Dr Coates has extensive experience in leading program teams towards successful milestones, including clinical trials and three marketed drugs. Dr Coates joined Amrad Corporation Limited in 1996 to establish a team to develop treatments for infectious diseases. Dr Coates now holds the position of Avexa's Chief Scientific Officer.

Dr Susan Cox BSc (Hons), PhD (Stockholm), GAICD

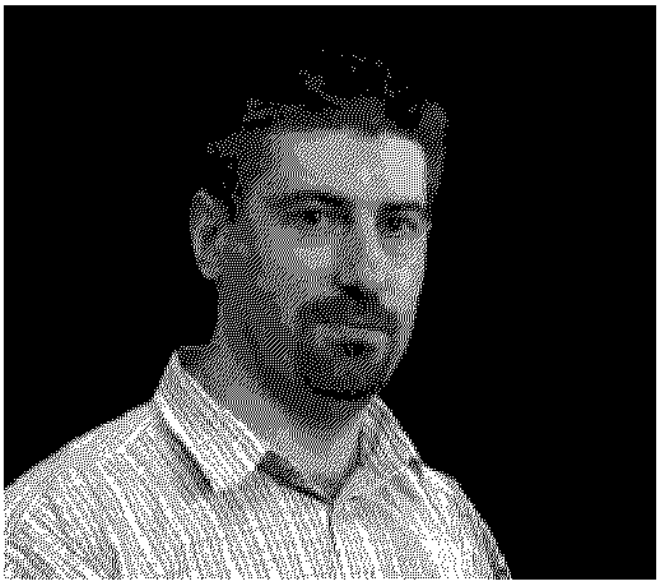
Head of Development

Dr Cox graduated with a PhD in Virology from the Karolinska Institute Stockholm in 1991, and became an associate professor in 1994. She has 15 years experience in antiviral drug discovery. Dr Cox worked on the anti-CMV drug Foscavir® at Astra, and was Program Director at Medivir, where she led antiviral research programs from discovery up to and including Phase II studies. Dr Cox joined Amrad Corporation Limited in 1998 and helped establish Avexa, where she currently holds the position of Head of Development and is responsible for the later stage projects. She is a member of the Committee of the International Society for Antiviral Research (ISAR) and a graduate of the Australian Institute of Company Directors.

Dr John Deadman BSc, PhD (London)

Head of Chemistry

Dr Deadman obtained his PhD in 1989 from the Institute of Cancer Research, London. Dr Deadman has more than 12 years experience in medicinal chemistry, drug design, and formulation/manufacturing aspects, first at the Thrombosis Research Institute (UK) and then as Head of Chemistry at Trigen, where he directed a program from discovery through to Phase II clinical trials. He is the author of more than 30 research papers and five patents.



Dr David Rhodes BSc (Hons), PhD (La Trobe)

Head of Discovery

Dr Rhodes graduated with a PhD in Biochemistry from La Trobe University in 1994. Dr Rhodes took up a post doctoral fellowship at the Fox Chase Cancer Center in the US from 1994 to 1995. In 1995, he returned to Australia to the Macfarlane Burnet Centre for Medical Research where he was previously Senior Research Officer and has more than 10 years experience in HIV research. Dr Rhodes joined Amrad Corporation Limited in 2000 and presently holds the position of Head of Discovery at Avexa.

CONCISE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

The financial statements and other specific disclosures have been derived from the Avexa Limited full financial report for the financial year. Other information included in the concise financial report is consistent with the Company's full financial report.

The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

A copy of the Company's 2005 Annual Financial Report, including the independent Audit Report, is available to all shareholders, and will be sent to shareholders without charge upon request. The 2005 Annual Financial Report can be requested by telephone (Australia: (03) 9208 4300; Overseas: (613) 9208 4300) and by internet at avexa@avexa.com.au.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Avexa Limited (the Company) for the year ended 30 June 2005 and the auditor's report thereon. Given that the Company only commenced operations on 1 July 2004, there is no comparative financial information included within this report.

Principal Activities

The principal activity of the Company during the course of the financial 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.

Review and Results of Operations

The Company commenced operations on 1 July 2004 as the corporate entity for Amrad's spun-out anti-infectives drug portfolio. Avexa listed on the Australian Stock Exchange on 23 September 2004 with an implied market capitalisation of $24 million.

On 18 January 2005, the Company announced the in-licensing of Phase II HIV drug AVX754 from Shire Biochem Inc., a fully owned subsidiary of Shire Pharmaceuticals Group Plc (referred to throughout this financial report as Shire). The introduction of a late stage project into the Company's portfolio dramatically improved the possibility of having a significant drug on the market within the next five years. The deal was structured to preserve the Company's cash resources and avoid the milestone and upfront costs normally associated with the in-licensing of such a late stage project.

If successfully commercialised, Avexa retains the rights to sell and distribute AVX754 throughout the world excluding North America (USA and Canada), where Shire retains the right to sell and distribute the product. Avexa and Shire will each receive a reciprocal royalty from the other for sales made by the other party in its territory, meaning that Avexa will receive a royalty from Shire for sales made by Shire in North America. AVX754 is being positioned to target those patients that are failing front-line therapy and the Company decided to undertake a Phase IIb study to determine the efficacy of the drug in that particular patient group.

A significant capital raising was undertaken during the financial year primarily to fund the costs of the AVX754 Phase IIb study. The capital raising comprised the issue of 12 million shares to Sophisticated Investors, 10 million shares to Shire and the offer of 28 million shares under a Prospectus dated 15 February 2005 which also allowed for the issue of up to 10 million shares in the event of oversubscription under a Priority Offer to existing retail shareholders. All shares were offered at an issue price of 20 cents and a total of 7,604,350 shares were issued under the Priority Offer. A total of 57,604,350 shares were issued raising gross proceeds of $11,520,870 from which transaction costs of $873,296 were deducted, thereby generating an overall increase in shareholders' funds of $10,647,574. Refer to Note 5 in the Accounts for full year movements in equity.

As at 30 June 2005, the process of initiating patient enrolment for the Phase IIb clinical trial had commenced. The trial is expected to be concluded and the results expected to be available in the 2006 financial year. AVX754 project costs incurred prior to 30 June 2005 and funded from the capital raising amounted to $3,582,049, which included the purchase of clinical trial product from Shire for a total of $2,520,630.

The operating result for the year reflects the Company's policy of writing off on a straight line basis the intellectual property acquired at a cost of $12 million over the initial demerger funding period of two years. A total of $6,000,000 has consequently been amortised over the financial year ending 30 June 2005 with the balance anticipated to be written off in full during the course of the 2006 financial year. The amortisation is an accounting entry that doesn't affect the Company's cash position but does reduce the overall shareholders' equity.

Drug Development

The status of the AVX754 project in-licensed during the financial year is that the project is presently focussed on completing the Phase IIb clinical study in drug-resistant HIV-infected patients. Preparations to continue development of AVX754 towards Phase III trials, assuming positive results in the Phase IIb proof-of-concept study, will also be initiated to ensure a smooth and timely progression. Further details are provided in the R&D Report section of this annual report.

Avexa's portfolio as at the date of demerger comprised three compounds at various stages of preclinical development. Each of these projects has been progressed during the financial year in accordance with the strategy outlined in the demerger documentation. An update on each project follows.

Hepatitis B (HBV) Non-Nucleosides

Avexa has discovered a series of novel inhibitors of HBV replication (AVX491 Class) which targets a different step in the replication of HBV compared to the inhibitors currently on the market or known to be in development. Avexa's lead compounds retain activity against strains of HBV that are resistant to one of the main drugs currently in use (Zeffix®). It is also highly likely that they are active against strains of HBV that are resistant to Hepsera® and Baraclude®, the other main drugs used to treat Hepatitis B. As Avexa's lead compounds target a different step in the replication, they have the potential to complement the existing on-market drugs as well as others in development.

Earlier this year Avexa announced that it was unable to generate significant blood levels of drug in its proof-of-concept study. The Company will endeavour to create ways to extract value from the project and potentially progress into clinical studies.

HIV Integrase

Avexa is working to optimise its series of compounds using medicinal chemistry, *in vitro* and *ex vivo* absorption, distribution, metabolism and excretion (ADME) and pharmacokinetic studies. Avexa incorporates the techniques of *in silico* docking and protein crystallography into its program to direct the optimisation process and thus accelerate the identification of the final lead compound. Avexa anticipates that its lead compound will enter into animal studies by the end of 2005 and has prepared data for multiple filings on composition of matter for novel HIV integrase inhibitors.

Vancomycin-Resistant Infections

Two classes of inhibitors are currently being optimised via strategies which include synthesis and testing of analogues for patent purposes, pharmacokinetic studies, and modelling and structural studies.

Further *ex vivo* and *in vivo* pharmacokinetic and ADME data are being generated as a predictive measure to enable selection of the lead compound. Planning of an *in vivo* efficacy model for the lead series is underway and the program is on track for a lead compound to enter animal trials by the end of 2005.

Patents have been filed in 2001 and 2005 covering the composition of matter of two distinct and novel classes of compound in this field.

Capital and Corporate Structure

The Company has no subsidiary or associated entity interests. When listed on the Australian Stock Exchange on 23 September 2004, there were 80,312,102 fully paid shares on issue. The Company has since conducted a capital raising at 20 cents per share by way of:

(i) a placement of 12,000,000 shares to Sophisticated Investors;

(ii) a Prospectus dated 15 February 2005, under which a further 35,604,350 shares were issued; and

(iii) contractual arrangements with Shire Biochem Inc., which resulted in the issue of 10,000,000 fully paid shares,

such that at reporting period end, there were 137,916,452 fully paid ordinary shares on issue. Share capital movements are detailed in Note 5 to the financial statements.

Unissued Shares Under Option

There were 450,000 options to acquire ordinary shares issued to staff and 1,050,000 to Executive Officers during the financial year with an exercise price of $0.40 and expiry date of 30 June 2009. There were no forfeitures or options exercised during the financial year.

A further 4,000,000 options were issued to Shire Biochem Inc. (Shire) during the financial year in accordance with the Shire Agreement referred to in the 15 February 2005 Prospectus lodged with the Australian Stock Exchange. In addition to the 10 million ordinary shares already held, Shire has the option to acquire a further four million shares in Avexa through the exercise of its options. Pricing of the option is set by reference to the Avexa share price 30 business days either side of the ASX announcement of the Phase IIb study results. Shire may exercise the option at any time between 17 January 2008 and 17 January 2012. The option terminates if the licence agreement between the Company and Shire is terminated.

There were no options exercised or that lapsed during or since the end of the financial year up to the date of this report.

Directors

The Directors of the Company at any time during or since the end of the financial year are:

Name, Qualification and Independence Status	Age	Experience and Special Responsibilities#	Listed Company Directorships in Past Three Years and Period Held
Dr H D Niall MB, BS, MD (Melb.), FRACP Independent Non-Executive Director and Chairman	68	Non-Executive Director and Chairman since 7 September 2004	Director of Biota Limited from 18 May 1995 to 15 July 2002
Dr J J Chick BSc (Hons) PhD (La Trobe) Executive Director	36	Chief Executive Officer since 7 September 2004	None
Ms H A Cameron MBA, BSc, FTCL Independent Non-Executive Director	51	Non-Executive Director and Chairman from 1 July 2004 to 7 September 2004	Non-Executive Director of Amrad Corporation Limited since 18 December 1997

Due to the small number of Non-Executive Directors on the Board all Non-Executive Directors are members of the Audit Committee. The role of the Audit Risk Committee ordinarily is to give the Board of Directors assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

Mr A M Boyd and Ms R M Fry were Non-Executive Directors between 1 July 2004 and 25 October 2004 whilst Dr P M Smith was appointed as Acting Chief Executive Officer between 1 July 2004 and 7 September 2004 and as a Non-Executive Director from 8 September 2004 until 25 October 2004.

Directors' Interests

The relevant interest of each Director in the share capital of the Company, as notified by the Company to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, as at the date of this report is as shown following.

	Ordinary Shares	Options to Acquire Ordinary Shares
	Number	Number
Dr H D Niall	540,000	-
Dr J J Chick	350,000	-
Ms H A Cameron	100,000	-

Shareholder approval will be sought at the Company's 2005 Annual General Meeting to approve the issue of:

(i) 500,000 performance-related options to Dr Chick which will have a five year term and an exercise price of $0.19, based on a 20 per cent premium to the Company's volume weighted average share price for the first five days of share trading in the 2006 financial year. The options will be issued under the Avexa Employee Share Option Plan (AESOP) and will be exercisable 50 per cent on 1 July 2006 and 50 per cent on 1 July 2007.

(ii) 600,000 options pursuant to Dr Chick's contract of employment. These options will vest 40 per cent on the date of issue, 20 per cent on the second anniversary of the issue date and thereafter 20 per cent on each subsequent anniversary of the issue date. The options will be issued under the AESOP, will have a five year term and an exercise price of $0.40.

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings	
	Attended	Held[i]	Attended	Held[i]
Dr H D Niall (from 7 September 2004)	14	14	3	3
Dr J J Chick (from 7 September 2004)	14	14		
Dr P M Smith (to 25 October 2004)	3	4		
Ms H A Cameron[ii]	15	16	3	3
Mr A M Boyd (to 25 October 2004)	4	4	1	1
Ms R M Fry (to 25 October 2004)	4	4		

(i) Represents the number of meetings held during the time that the Director held office.
(ii) Ms H A Cameron was Chairman between 1 July 2004 and 7 September 2004.

Dividends

The Directors do not recommend a dividend be paid or declared by the Company for the year. No dividend has been paid by the Company since its incorporation on 7 April 2004.

Significant Changes in the State of Affairs

Other than as detailed elsewhere within this financial report, there has been no significant change in the state of affairs of the Company.

Environmental Regulation

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Directors believe that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

Likely Developments

Information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Events Subsequent to Reporting Date

There has not arisen in the interval between the end of the financial year and the date of this report 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.

Indemnification and Insurance of Officers

Indemnification

The Company has agreed to indemnify the following current Directors of the Company, Dr H D Niall, Dr J J Chick and Ms H A Cameron against liability arising as a result of a Director acting as a Director or other Officer of the Company. The indemnity includes a right to require the Company to maintain Directors' and Officers' insurance that extends to former Directors. The indemnity provided by the Company is an unlimited and continuing indemnity irrespective of whether a Director ceases to hold any position in the Company.

DIRECTORS' REPORT

CONTINUED

Insurance Premiums

Since the end of the financial year, the Company has paid an undisclosed premium for Directors' and Officers' Liability insurance, for current and former Directors and Officers including Executive Officers of the Company. The Directors have not contributed to the payment of the policy premium. The Directors' and Officers' Liability insurance policy covers the Directors and Officers of the Company against loss arising from any claims made against them during the period of insurance (including company reimbursement) by reason of any wrongful act committed or alleged to have been committed by them in their capacity as Directors or Officers of the Company and reported to the insurers during the policy period or if exercised, the extended reporting period.

Company Secretary

Ms R M Fry has been the Company Secretary of Avexa Limited since incorporation in April 2004. Ms Fry also holds the role of General Counsel and Company Secretary for Amrad Corporation Limited, a role she has fulfilled since November 2000.

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.

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 year ended 30 June 2005 and is set out on page 29.

Non-Audit Services

The following non-audit services were provided by the Company's auditor, KPMG, during the financial year. The Directors are satisfied that the provision of non-audit services is compatible with the general standard for independence imposed by the Corporations Act 2001 and with the Company's own Auditor Independence Policy. The nature and scope of each of the non-audit services provided means that Auditor independence was not compromised. KPMG received or is due to receive the following amounts for the provision of the following services:

Statutory audit services	$46,000
Capital raising due diligence services	$49,750
Total	$95,750

Remuneration Report

The Remuneration Report forms part of this Directors' Report and is set out on pages 23 to 28.

Dated at Melbourne this 8th day of August, 2005. This report is made with a resolution of the Directors.

Ms H A Cameron
Non-Executive Director

REMUNERATION REPORT

FOR THE YEAR ENDED 30 JUNE 2005

Directors' and Senior Executives' Remuneration

The Board assumes full responsibility for remuneration policies and packages applicable to Directors and Senior Executives of the Company. The broad remuneration policy is to ensure the remuneration package appropriately reflects the person's duties and responsibilities, and that remuneration levels are competitive in attracting, retaining and motivating people who possess the requisite level of skill and experience. Employees may receive incentive payments remunerated as cash or share options based on the achievement of specific goals related to the performance of the individual and the Company as determined by the Directors. Incentives are provided to senior managers for the achievement of individual and strategic objectives with the broader view of creating value for shareholders.

Fixed Remuneration for Employees

Fixed remuneration consists of a base remuneration package, which includes Fringe Benefits Tax calculated on any salary packaging arrangements and employer contributions to superannuation funds.

Fixed remuneration levels for staff are reviewed annually by the Senior Management group, referred to as the Senior Management Team (SMT), through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data. Recommendations for staff are given by the SMT to the Chief Executive Officer (CEO) for approval. The CEO conducts the review of the SMT and makes recommendations to the Board for approval.

Key Performance Indicators (KPIs) are individually tailored by the SMT for each employee each year, and reflect an assessment of how that employee can fulfil their particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year. KPIs and remuneration levels are set for the SMT by the CEO and for the CEO by the Board adopting the same process as that adopted for staff, with close alignment to each individual's role and responsibility within the organisation and in conjunction with the strategic objectives of the Company.

Performance-Linked Remuneration

All employees other than Non-Executive Directors may receive incentive payments and/or share options based on the achievement of specific goals related to (i) performance against individual key performance objectives and (ii) to the performance of the Company as a whole as determined by the Directors based on a range of factors. These factors include traditional financial considerations such as operating performance, cash consumption and deals concluded and also industry-specific factors relating to the advancement of the project portfolio, introduction of new projects to the portfolio, collaborations and relationships with scientific institutions, third parties and internal employees.

Employment contracts for staff other than middle management provide for incentive remuneration of up to 10 per cent of their total fixed remuneration package (although higher incentive remuneration payments may be made at the Board's discretion). Typically incentive remuneration is split 50 per cent on personal performance and 50 per cent on Company performance.

The Board at its sole discretion determines the total amount of performance-linked remuneration payable as a percentage of the total annualised salaries for all employees employed as at the end of the financial year (with pro rata reductions to the annualised salary made for any employee not employed for the entire financial year). Once the Board has determined the total performance-linked remuneration payable across the Company, SMT members assess the performance of each individual staff member within their department, relative to that staff member's KPIs, and decide how much performance-linked remuneration should be paid to that person.

The SMT members have full discretion to award individual employees in excess of or less than the performance-linked remuneration percentage determined by the Board, dependent upon their assessment of the employee's performance for the financial year, provided that the overall amount payable within the SMT member's department remains within the stated percentage.

The CEO makes a recommendation annually to the Board in respect of incentive remuneration for the SMT based on the same principles and processes as those adopted for all staff.

The Board similarly reviews the performance of the CEO and resolves accordingly on the appropriate level of performance incentive to be paid. Contractual arrangements with the CEO for the financial year ended 30 June 2005 were that the CEO would be entitled to an incentive payment if the Board determined that the KPIs set for the CEO had been met.

REMUNERATION REPORT

CONTINUED

Incentive payments are made before the end of August in the year following the financial year performance review period. Whilst $61,000 has been accrued during the financial year by way of an employee benefit provision, there have been no incentive payments made in the 2005 financial year as these have been assessed and approved after year end and will be brought to account as remuneration in the year ended 30 June 2006.

The Chief Executive Officer has the discretion to recommend the offer of options to acquire ordinary shares to any member of staff in recognition of exemplary performance. Such options are likely to vest immediately upon issue given that they are issued as a reward for past performance rather than as a long term incentive. Any issue of options proposed as incentive remuneration requires approval by the Board and is subject to the option limits imposed by the Corporations Act.

Performance Management and Development System

The Company has established a Performance Management and Development System (PMDS) the objectives of which are to:

- improve the quality of work, efficiency and productivity of all staff through continual skills improvement and through gaining new skills and knowledge;
- recognise current skills held against identified core competencies;
- develop and implement training plans relevant to Avexa's business needs;
- identify career streams for all employees, outlining their progression from current skills levels as training and on-the-job learning is implemented; and
- develop a training/development process that provides mobility of skills that supports sound succession planning processes.

At the beginning of each financial year, individual and team performance for the previous year is assessed for every employee by their line manager and new objectives set for the forthcoming year. These objectives include department and project specific objectives together with individual stretch objectives, challenging, realistic and personal development objectives tailored to the employee's role within the organisation. Measurement, management support, target dates and training course requirements are all set. Progress against the objectives is reviewed during the year and percentage achievement concluded at the end of the year, whereupon the cycle recommences. The outputs of this process form the basis of the assessment of the individual's personal incentive remuneration.

Contractual Arrangements

All Avexa Executive Officers, comprising the SMT, are employed under contracts with the following common terms and conditions:

- no fixed term;
- no termination payment prescribed;
- terminable by either party on the giving of six months notice in writing during the first 12 month period of employment expiring on 30 June 2005 and thereafter three months; and
- the Company may terminate any contract for Cause as defined.

These clauses are the same for the Chief Executive Officer's contract except that a six month notice period remains in place at all times.

Long Term Incentive

From time to time Board approval may be sought for the issue of options to acquire ordinary shares to staff and the SMT as a means of providing a long term incentive for performance and loyalty. Any such options are issued under the AESOP. The Board's approach to the issue of options under the AESOP during the 2005 financial year, being the first year of operation of the Company, has been to set an exercise price significantly higher than the market share price as an effective performance hurdle.

In order to give the incentive a medium to long term impact, the options have a five year life and a vesting profile as follows:

- nil vesting within 12 months of issue;
- 40 per cent vesting between one and two years of issue;
- 20 per cent vesting between two and three years of issue;
- 20 per cent vesting between three and four years of issue; and
- 20 per cent vesting between four and five years of issue.

In setting the exercise price of $0.40 for the 2005 offering of options to staff and Executive Officers, a premium was set of 10 cents per option to the Company's pre-listing market capitalisation approximating $0.30 per share in order to provide an effective performance hurdle and performance incentive for all option recipients.

Other Benefits

In addition to the fixed and at-risk remuneration, the Company provides salary continuance cover for its permanent employees engaged in more than 20 hours work per week and pays the administration fees for employees participating in the Aon Master Trust superannuation fund. The value for Other Benefits in the remuneration table represents the value of motor vehicle costs salary packaged by the Executive.

Director Remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount approved by shareholders is then divided between the Directors as agreed by the Board. No amount has yet been determined at a general meeting given that the first such meeting will be held in October 2005.

Non-Executive Directors do not receive performance related remuneration and the structure of Non-Executive Director and Senior Management remuneration is separate and distinct. Non-Executive Directors do not have contracts of employment but are required to evidence their understanding and compliance with the Board policies of Avexa Limited. These Board policies do not prescribe how remuneration levels for Non-Executive Directors are modified from year to year. Remuneration levels are to be reviewed by the Board each year taking into account cost of living changes, changes to the scope of the roles of the Directors, and any changes required to meet the principles of the overall Board policies.

Directors' base fees are currently $40,000 per annum with $80,000 for the role of Chairman, inclusive of duties associated with participation in the Avexa Audit Committee.

Directors' and Executive Officers' Remuneration Table

Details of the nature and amount of each major element of the remuneration of each Director of the Company and each of the named Officers of the Company receiving the highest remuneration for the period that the Director or Officer held that position during the current financial year (there being no comparative year) are shown in accordance with Accounting Standard AASB 1046 'Director and Executive Disclosures by Disclosing Entities' and with the Corporations Act 2001 in the following table.

There has been no exercise of options during the financial year. There is no component of the values recorded in the following table under the heading 'Shares and Options issued' that relates to options that have lapsed during the financial year.

Details of the Company's policy in relation to the proportion of remuneration that is performance related are provided earlier in this report. For the individuals named in the Directors' and Executive Officers' remuneration table, details of their service contracts are provided earlier in this report. Figures in brackets represent the value of options as a percentage of remuneration.

REMUNERATION REPORT

CONTINUED

	Primary			Post Employment	Equity Compensation	Other Compensation Termination	
	Base Remuneration (Salary and Fees)	Non-cash Benefits	Bonuses/ Incentives	Superannuation Contributions	Shares and Options Issued	and Retirement Benefits	Total Remuneration
	$	$	$	$	$	$	$
Directors							
Non-Executive							
Dr H D Niall	60,127	-	-	5,412	-	-	65,539
Ms H A Cameron[iii]	-	-	-	47,279	-	-	47,279
Mr A M Boyd	-	-	-	-	-	-	-
Ms R M Fry	-	-	-	-	-	-	-
Executive							
Dr J J Chick[i]	142,918	20,094	-	21,490	-	-	184,502
Dr P M Smith	-	-	-	-	-	-	-
	203,045	20,094	-	74,181	-	-	297,320
Executive Officers (excluding Directors)							
The Company[ii]							
Current							
Dr J J Chick[i]	20,442	4,434	-	2,239	-	-	27,115
Dr J A V Coates	177,965	19,170	-	12,000	16,252 (7.2%)	-	225,387
Dr S W Cox	120,333	22,659	-	11,340	16,252 (9.5%)	-	170,584
Dr J Deadman	93,661	22,589	-	8,669	10,158 (7.5%)	-	135,077
	412,401	68,852	-	34,248	42,662 (7.6%)	-	558,163

(i) Dr J J Chick was an Executive Officer until his appointment as Executive Director and Chief Executive Officer on 7 September 2004. Remuneration for the period prior to Dr Chick's appointment as a Director has been reflected under the Executive Officer heading and the remainder of Dr Chick's remuneration for the year has been reflected as Executive Director remuneration.

(ii) The Company employed only these persons during the financial year in an Executive Officer capacity.

(iii) All Director fees sacrificed directly into superannuation.

In the above table, the fair value of the options granted to Executive Officers has been calculated based on the value at the date of grant using a valuation model that takes into account the performance hurdles and vesting period related to those options. The value as disclosed is the portion of the fair value of the options allocated to this reporting period.

Post Reporting Date Option Movements

As part of the performance-linked remuneration strategy since reporting date the Company's Board has passed the following resolutions:

(i) to offer 480,000 options to Executive Officers at an exercise price of $0.19 based on a 20 per cent premium to the Company's volume weighted average share price for the first five days of share trading in the 2006 financial year. The options will be exercisable 50 per cent on 1 July 2006 and 50 per cent on 1 July 2007; and

(ii) to offer 500,000 options to Dr Chick subject to shareholder approval at the Company's 2005 Annual General Meeting. The 500,000 options will have a five year term and an exercise price of $0.19 based on a 20 per cent premium to the Company's volume weighted average share price for the first five days of share trading in the 2006 financial year. The options will be exercisable 50 per cent on 1 July 2006 and 50 per cent on 1 July 2007.

As part of the Company's long term incentive strategy, subsequent to reporting date, the Company's Board of Directors has also approved the issue of 20,000 options to all staff other than the CEO (including Executive Officers) at an exercise price of $0.19 based on a 20 per cent premium to the Company's volume weighted average share price for the first five days of share trading in the 2006 financial year. The options will be exercisable 75 per cent on 1 July 2006 and 25 per cent on 1 July 2007.

Shareholder approval at the 2005 Annual General Meeting will be sought for the issue of 600,000 options pursuant to Dr Chick's contract of employment. These options will vest 40 per cent on the date of issue, 20 per cent on the second anniversary of the issue date and thereafter 20 per cent on each subsequent anniversary of the issue date. The options will be issued under the AESOP, will have a five year term and an exercise price of $0.40.

Shares Issued on Exercise of Options

During or since the end of the financial year up to the date of this report the Company did not issue any shares as a result of the exercise of options.

Alteration to Option Terms

There has been no alteration to option terms and conditions during or since the end of the financial year up to the date of this report.

Fair Value of Options

The fair value of the options granted to Executive Directors and Officers in the above tables have been calculated at grant date using a binomial valuation model that takes into account the performance hurdles and vesting period related to those options. The value as disclosed is the portion of the fair value of the options allocated to this reporting period in accordance with the five year term of the options. The following factors and assumptions have been used in determining the fair value on grant date. Comparative information has not been restated as market conditions were already included in the prior year valuation.

Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Price of Shares on Value Date	Risk Free Interest Rate	Estimated Volatility	Dividend Yield
12 Nov 2004	30 June 2009	$0.16252	$0.40	$0.27	5.25%	82.08%	Nil

REMUNERATION REPORT

CONTINUED

Analysis of Share-Based Payments Granted as Remuneration

Details of the vesting profile of the options granted as remuneration during the financial year to each applicable person in the Directors' and Executive Officers' remuneration tables is detailed below. There were no options forfeited during the financial year.

Executives	Options Granted		Percentage Vested in year	Forfeited in Year	Financial Years in Which Grant Vests	Value Yet to Vest in $
Company Executives	Number	Date				
Dr J A V Coates (Chief Scientific Officer)	400,000	12 November 2004	Nil	-	2006-2009#	48,756
Dr S W Cox (Head of Development)	400,000	12 November 2004	Nil	-	2006-2009#	48,756
Dr J Deadman (Head of Chemistry)	250,000	12 November 2004	Nil	-	2006-2009#	30,473
	1,050,000					127,985

The vesting profile for these options is as follows:
- 40 per cent on 1 July 2005
- 20 per cent on 1 July 2006
- 20 per cent on 1 July 2007
- 20 per cent on 1 July 2008

The fair value of options issued has been apportioned evenly over the four year vesting profile of the option giving rise to a fair value remuneration for the 2005 financial year. The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Analysis of Bonuses and Incentive Payments

No bonuses or incentive payments were made during the year under the Company's PMDS. The annual review process was concluded after reporting date and a board resolution passed to grant Dr Chick 500,000 options subject to shareholder approval at the forthcoming Annual General Meeting plus $60,000 cash, to offer the SMT an aggregate 480,000 options to acquire ordinary shares, and to remunerate staff an aggregate $16,100 or 161,000 options. This incentive remuneration has not been included in the remuneration tables and will be reported as 2006 financial year remuneration.

Consequences of Performance on Shareholder Wealth

In considering the Company's performance and benefits for shareholders wealth, the Board has regard to a broad range of factors, some of which are financial and others of which relate to the scientific progress on the Company's projects, relationship building with research institutions, projects introduced, staff development etc. The Board has some but not absolute regard to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure nor does it contemplate consideration of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams. The Company is of the view that any adverse movement in the Company's share price should not be a punitive factor in assessing the performance of individuals other than the Chief Executive Officer for whom it is included within the overall measure of performance against individual objectives.

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, in relation to the audit for the financial year ended 30 June 2005, there have been:

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

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

B W Szentirmay

Melbourne
8 August 2005

DISCUSSION AND ANALYSIS OF CONCISE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

Discussion and Analysis of Statement of Financial Performance

The Company's revenue for the period comprised bank interest of $669,000 generated from the operating account and from investment of surplus funds in capital stable, bank term deposits.

Included within operating expenses for the period are the following significant items:

(i) Amortisation of Intellectual Property

The Company is amortising the $12 million cost of its intellectual property on a straight line basis over the first 24 months of operations of the Company, giving rise to an amortisation charge for the year of $6 million.

(ii) Contract Research and Development Costs

Costs incurred for the year of $4.7 million reflect external costs associated with each of the three projects covered within the demerger Information Memorandum plus costs of $2.5 million associated with the purchase of clinical trial product required to conduct the Phase IIb trial for the in-licensed HIV project referred to as AVX754.

(iii) Employee Expenses

Employee expenses of $1.5 million comprise the employees who transferred across from the Amrad Corporation Group on 1 July 2004 together with their employee entitlements plus new employees recruited during the year for the Phase IIb AVX754 clinical trial and for the establishment of an in-house chemistry capability. Director remuneration costs are also included within this figure.

Discussion and Analysis of Statement of Financial Position

(i) Cash Position

The Company was demerged with $12 million in cash and subsequently raised $11.5 million, from which transaction costs of $0.9 million were deducted. Operational cash flows, which include the $2.5 million purchase of clinical trial product for the Phase IIb AVX754 trial, were $6.9 million, thereby resulting in a year end balance of available funds of $15.7 million.

(ii) Contributed Equity

In addition to issuing equity for $12 million in cash upon demerger, the Company issued $12 million in equity to acquire the intellectual property being written off over a two year period commencing 1 July 2004. Through a Placement to Sophisticated Investors and a capital raising, the Company raised a further $11.5 million from which transaction costs of $0.9 million have been applied.

(iii) Tax Benefits

Given the uncertainties associated with their recovery, the Company has not recognised any deferred tax benefits relating to income tax losses recorded for the financial year.

Discussion and Analysis of Statement of Cash Flows

(i) Proceeds from Issue of Share Capital

The proceeds from issue of share capital reflect the above issues of equity and the fact that consideration for $12 million of equity issued was by way of acquisition of intellectual property rather than cash.

(ii) Property, Plant and Equipment

The Company has a two year operating lease covering most of its operational asset requirements such that only $133,000 of capital acquisitions was capitalised during the financial year, against which depreciation of $12,000 has been recorded.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Note	Company 2005 $'000
Other revenues from ordinary activities		669
Total revenue from ordinary activities		**669**
Contract research and development costs	2(a)	(4,654)
Employee expenses		(1,482)
Depreciation		(12)
Amortisation of intellectual property		(6,000)
Occupancy costs		(210)
Consulting costs		(215)
Professional services		(355)
Travel and accommodation		(244)
Raw materials and consumables used		(199)
Asset management expenses		(318)
Insurance		(150)
Other expenses from ordinary activities	2(c)	(366)
Profit/(loss) from ordinary activities before related income tax expense		**(13,536)**
Income tax expense relating to ordinary activities		-
Net profit/(loss)		**(13,536)**
Net profit attributable to outside equity interests		-
Total changes in equity from non-owner related transactions attributable to members of the parent entity	4	**(13,536)**
Basic earnings per share (ordinary shares)		(14.4)
Diluted earnings per share (ordinary shares)		(14.4)

The statement of financial performance is to be read in conjunction with the discussion and analysis on page 30 and notes to the financial statements set out on pages 34 to 38.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Note	Company 2005 $'000
Current assets		
Cash assets		15,727
Receivables		64
Other		81
Total current assets		15,872
Non-current assets		
Receivables		-
Intangibles		6,000
Property, plant and equipment		121
Deferred tax assets		-
Total non-current assets		6,121
Total assets		21,993
Current liabilities		
Payables		687
Provisions		154
Total current liabilities		841
Non-current liabilities		
Provisions		40
Total non-current liabilities		40
Total liabilities		881
Net assets		21,112
Equity		
Contributed equity	5	34,648
Accumulated losses	4	(13,536)
Total equity		21,112

The statement of financial position is to be read in conjunction with the discussion and analysis on page 30 and notes to the financial statements set out on pages 34 to 38.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Company 2005 $'000
Cash flows from operating activities	
Cash receipts in the course of operations	261
Cash payments in the course of operations	(7,760)
Interest received	625
Income taxes paid	-
Net cash used in operating activities	(6,874)
Cash flows from investing activities	
Payments for property, plant and equipment	(133)
Net cash used in investing activities	(133)
Cash flows from financing activities	
Proceeds from issue of share capital	23,521
Costs of raising share capital	(873)
Consideration for taking on employee entitlements	86
Net cash provided by financing activities	22,734
Net increase in cash held	15,727
Cash at the beginning of the financial year	-
Cash at the end of the financial year	15,727

The statement of cash flows is to be read in conjunction with the discussion and analysis on page 30 and notes to the financial statements set out on pages 34 to 38.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

1. Basis of Preparation of Concise Financial Report

The concise financial report has been prepared in accordance with the Corporations Act 2001, Accounting Standard AASB 1039 'Concise Financial Reports' and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures required by AASB 1039 have been derived from the Company's full financial report for the financial year. Other information included in the concise financial report is consistent with the Company's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The concise 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 have been consistently applied by the Company throughout the financial year. A full description of the accounting policies adopted by the Company may be found in the Company's full financial report. Given that this is the first period of operation for the Company, there are no comparative figures available.

2. Profit from Ordinary Activities Before Related Income Tax Expense

(a) Individually Significant Items Included in Profit From Ordinary Activities before Related Income Tax Expense:

	Company
	2005
	$'000
Contract research and development expenditure	4,654
Direct research and development expenditure	1,980
Research and Development	6,634

(b) Profit from Ordinary Activities before Related Income Tax Expense has been Arrived at After Charging/(Crediting) the Following Items:

Depreciation of plant and equipment	12
Amortisation of intellectual property	6,000
Amounts transferred to/(from) provisions for employee entitlements	155
Operating lease rental expense	120

(c) Other Expenses

From operating activities	
Corporate administration	109
Intellectual property management	72
Advertising and promotion	75
Workplace administration	62
Finance expenses	6
Other expenses	42
Other expenses from operating activities	366

3. Segment Reporting

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.

4. Accumulated Losses

	Company
	2005 $'000
Accumulated losses at the beginning of the financial year	-
Net profit/(loss) attributable to members of the Company	(13,536)
Accumulated losses at the end of the financial year	(13,536)

5. Contributed Equity

Issued and paid up capital

	$'000	Number
137,916,452 ordinary shares, fully paid	34,648	137,916,452
Movements during the year were as follows:		
Balance at the beginning of the financial year	-	2
Consideration for acquisition of intellectual property	12,000	40,156,000
Share capital issue	12,000	40,156,000
Shares issued upon demerger as part of rounding up of Amrad shareholder entitlement	-	100
Placement to Sophisticated Investors	2,400	12,000,000
Shares offered under 15 February 2005 Prospectus	5,600	28,000,000
Priority Offer shares issued under 15 February 2005 Prospectus	1,521	7,604,350
Placement of Shares to Shire under Shire Licence Agreement	2,000	10,000,000
Transaction costs relating to Placements and Prospectus offers	(873)	-
Share capital at the end of the financial year	34,648	137,916,452

Terms and Conditions of Ordinary Shares

Holders of ordinary shares are entitled to one vote per share at shareholders' meetings and to receive any dividends as may be declared. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Options to Acquire Ordinary Shares

During the financial year 1,500,000 options were issued to employees under the Avexa Employee Share Option Plan.

A further 4,000,000 options were issued to Shire Biochem Inc. (Shire) during the financial year in accordance with the Shire Agreement referred to in the 15 February 2005 Prospectus. In addition to the 10 million ordinary shares already held, Shire has the option to acquire a further four million shares in Avexa through the exercise of its options. Pricing of the option is set by reference to the Avexa share price 30 Business Days either side of the ASX announcement of the Phase IIb study results relating to the AVX754 compound. Shire may exercise the option at any time between 17 January 2008 and 17 January 2012. The Option terminates if the licence agreement between the Company and Shire is terminated.

CONTINUED

6. Dividends

There were no dividends paid during the financial year and the Directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2005.

7. Contingent Liabilities and Contingent Assets

Details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote are set out below, as well as details of contingent liabilities and contingent assets, which although considered remote, the Directors consider should be disclosed. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent Liabilities not Considered/Considered Remote

The Company is not aware of any contingent liabilities capable of having a material impact on the Company.

Contingent Assets not Considered Remote

The Company is not aware of any contingent assets capable of having a material impact on the Company.

8. Impact of Adopting Australian Equivalents to IFRS

For reporting periods beginning on or after 1 January 2005 the Company must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended on 30 June 2005.

The Company has substantially completed the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to AIFRS which will be applicable for the financial year ended 30 June 2006. During the financial year the Company allocated internal and external resources to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS and report to the Company's Audit Committee.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS together with the current best estimate of the quantitative impact of the changes on total equity as at the date of transition, at 30 June 2005 and on net profit for the year ended 30 June 2005.

(a) Reconciliation of Equity as Presented Under AGAAP to that Under AIFRS

	Company	
	30 June 2005 $'000	1 July 2004 (transition date) $'000
Total equity under AGAAP	21,112	-
Adjustments to retained earnings (net of tax):		
Recognition of share-based payment expense[(i)]	(61)	-
	21,051	-
Adjustments to other reserves (net of tax)		
Recognition of share-based payment expense[(i)]	61	-
Total equity under AIFRS	21,112	-

The impact of transition to AIFRS, including the transitional adjustments disclosed, are based on AIFRS standards that management expect to be in place when preparing the first complete AIFRS financial report (being in respect of the half year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair representation of the Company's financial position, results of operations, and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations may be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provide in this note.

Revisions to the selection and application of AIFRS accounting policies may be required as a result of:

(i) changes in financial reporting requirements that are relevant to the Company's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standard Board subsequent to the preparation of this financial report;

(ii) additional guidance on the application of AIFRS in a particular industry or to a particular transaction; and

(iii) changes to the Company's operations.

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS.

(b) Reconciliation of Results as Presented Under AGAAP to that Under AIFRS

	Company
	2005
	$'000
Net loss as reported under AGAAP	13,536
Recognition of share-based payment expense[1]	61
Net loss under AIFRS	13,597

(1) Share-based payments.

Under AASB 2 Share Based Payments, the Company would recognise the fair value of options granted to employees at grant date as an expense on a pro-rata basis over the vesting period in the statement of financial performance, with a corresponding adjustment to equity. Share-based payments costs are not recognised under AGAAP.

(c) Reconciliation of Cash Flows as Presented Under AGAAP to that Under AIFRS

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

Other Accounting Impact

Impairment

Under current Australian GAAP the carrying amounts of non-current assets are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount exceeds the recoverable amount, then the asset is written down to its recoverable amount, with the write down recognised as an expense in the income statement in the period in which it occurs.

CONTINUED

Under AIFRS, the carrying amount of non-current assets will be reviewed each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. An impairment loss will be recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same as a revaluation decrease.

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at the entity level using undiscounted cash flows. Under AIFRS, the recoverable amount of non-current assets is required to be assessed using estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the risks specific to the asset.

A review of the Company's non-current assets at reporting date did not reveal any indication of impairment.

9. Events Subsequent to Reporting Date

There has not arisen in the interval between the end of the financial year and the date of this report 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.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2005

In the opinion of the Directors of Avexa Limited (the Company), the accompanying concise financial report of the Company for the year ended 30 June 2005, set out on pages 30 to 38:

(a) has been derived from or is consistent with the full financial report for the financial year; and

(b) complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

Dated at Melbourne this 8th day of August, 2005.

Signed in accordance with a resolution of the Directors.

Ms H A Cameron
Non-Executive Director

INDEPENDENT AUDIT REPORT ON CONCISE FINANCIAL REPORT

TO THE MEMBERS OF AVEXA LIMITED

Scope

The Financial Report and Directors' Responsibility

The concise financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 9, the disclosures made by the Company in accordance with the Corporations Regulations 2001 as required by AASB 1046 Director and Executive Disclosures by Disclosing Entities on pages 23 to 27 of the Remuneration Report in the Directors' Report (remuneration disclosures), and the accompanying discussion and analysis on the statement of financial performance, statement of financial position and statement of cash flows, set out on pages 30 to 38 for Avexa Limited (the "Company") for the year ended 30 June 2005.

The Remuneration Report also contains information on remuneration not required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, which is not subject to our audit.

The Directors of the Company are responsible for the preparation of the concise financial report and the Remuneration Report in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports". 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 concise financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporation Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. We have also performed an independent audit of the full financial report of the Company for the year ended 30 June 2005. Our audit report for the full financial report was signed on 8 August 2005, and was not subject to any qualification.

We performed procedures in respect of the audit of the concise financial report to assess whether, in all material respects, the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report is consistent with the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures, which were not directly derived from the full financial report.

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

Audit Opinion

In our opinion, the concise financial report of Avexa Limited for the year ended 30 June 2005 complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports".

KPMG

KPMG

B W Szentirmay
Partner
Melbourne
8 August 2005

SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2005

Share Capital

As at 25 July 2005, the share capital of the Company was:
Issued and paid up capital: 137,916,452 ordinary shares

	Number
Number of shares quoted on The Australian Stock Exchange Limited	137,619,854

Avexa Limited ordinary shares have been traded on The Australian Stock Exchange Limited since 23 September 2004 and trade under the ASX code AVX. Melbourne is the Home Exchange. The Company's securities are not quoted on any other stock exchange.

Twenty Largest Shareholders as at 25 July 2005

Name	Ordinary Shares Held	% of Total Shareholding
Amrad Corporation Limited	21,062,000	15.27
Fibre Optics (Aust) Pty Ltd	19,132,292	13.87
Shire Biochem Inc.	10,000,000	7.25
State Trustees Limited	9,871,797	7.16
Invia Custodian Pty Limited (Black A/C)	6,370,994	4.62
Queensland Investment Corporation	6,136,632	4.45
ANZ Nominees Limited	3,126,270	2.27
Merck Sharp & Dohme (Australia) Pty Limited	1,818,182	1.32
Warragal Investments Pty Ltd	1,250,000	0.91
Mr Robert James Wilson	1,250,000	0.91
Clemwell Pty Ltd	1,125,000	0.82
Powers Pty Ltd	1,010,000	0.73
The Walter and Eliza Hall Institute of Medical Research	1,000,000	0.73
R J Custodians Pty Ltd	772,257	0.56
Toltec Holdings Pty Ltd	701,063	0.51
Sirius Talent Pty Ltd	680,000	0.49
Sayers Investments (ACT) Pty Ltd	670,250	0.49
Citicorp Nominees Pty Limited	603,798	0.44
Pillage Investments Pty Ltd	600,000	0.44
Bell Potter Nominees Ltd	569,845	0.41
Total	87,750,380	63.63

Substantial Shareholders

The following information is extracted from substantial shareholding notices given to the Company as at 25 July 2005 by shareholders who hold relevant interests in more than 5 per cent of the Company's voting shares.

Name	Ordinary Shares Held	% of Total Shareholding
Amrad Corporation Limited	21,062,000	15.27
Fibre Optics (Aust) Pty Ltd	19,132,292	13.87
Shire Biochem Inc.	10,000,000	7.25
State Trustees Limited	9,871,797	7.16

SHAREHOLDER INFORMATION

CONTINUED

Distribution of Shareholders as at 25 July 2005

Range	Holders	Ordinary Shares Held	% of Total Shareholding
1–1,000	2292	1,420,576	1.1
1,001–5,000	1918	4,759,157	3.4
5,001–10,000	346	2,890,496	2.1
10,001–100,000	849	25,053,938	18.2
100,001 and over	89	103,792,285	75.2
Total shareholders	5494	137,916,452	100

The number of shareholders as at 25 July 2005 with less than a marketable parcel of $500 worth of shares, based on the market price as at the above date, was 3,644.

Shares and Voting Rights

As at 25 July 2005, there were 5494 holders of ordinary shares of the Company.

The voting rights attached to ordinary shares are set out in Rules 5(f) and 40 of the Company's Constitution. In broad summary, but without prejudice to the provisions of those Rules, each shareholder present at a general meeting in person or by a duly appointed representative, proxy or attorney:

a) on a show of hands, has one vote except if a shareholder has appointed more than one person as a representative, proxy or attorney, in which case none of those persons is entitled to vote or if a person is entitled to vote in more than one capacity, that person is entitled to only one vote; and

b) on a poll, has one vote for each fully paid share held and for each other share held, has a vote in respect of the share equivalent to the proportion which the amount paid on that share is of the total amounts paid and payable on that share at the time a poll is taken but no amount paid on a share in advance of calls shall be treated as paid on that share.

As at 25 July 2005, there were options over 1,500,000 unissued ordinary shares granted to employees under the Key Employee Share Option Plan. There are a further 4,000,000 options over unissued ordinary shares issued to Shire Biochem Inc. on terms approved by shareholders at the Company's General Meeting held on 22 March 2005. There are no voting rights attached to either the options or the underlying unissued ordinary shares.

Officers

Chief Executive Officer: Dr Julian Chick BSc (Hons) PhD (La Trobe)
Company Secretary: Ms Robyn M Fry LLB, GDLP(SA)

Registered Office

Avexa Limited
576 Swan Street
Richmond Victoria 3121
Australia
Telephone 61 3 9208 4300
Facsimile 61 3 9208 4004

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
Australia
Telephone 1300 850 505 or 61 3 9415 4000
Facsimile 61 3 9473 2500
Website www.computershare.com
Email web.enquiries@computershare.com.au

Facsimile for receipt of 4 October 2005 Annual General Meeting correspondence only: 61 3 9473 2555

Securityholder Information

You can gain access to your Securityholding information in a number of ways. The details are managed via the Company's registrar, Computershare Investor Services and can be accessed as outlined below. Please note your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) is required for access.

Investor Phone Access

Provides telephone access 24 hours a day 7 days a week.

Step 1: Call 1300 850 505
Step 2: Enter the first five letters of the Company name – eg. Avexa (touch tone 28392#).
Step 3: Enter your Security Reference Number (SRN) or Holder Identification Number (HIN).
Step 4: Follow the prompts to gain secure, immediate access to your holding details, registration details or payment information.

Internet Account Access

Securityholders can access their details via the Internet. Computershare provides two levels of access: Read only and online portfolio updating capability.

View Securityholding (read only access)

Step 1: Go to www.computershare.com/au/investors.
Step 2: Select Securityholding and enter AVX or Avexa Limited.
Step 3: Enter Securityholder Reference Number (SRN) or Holder Identification Number (HIN).
Step 4: Read only access to account balance, transaction history, payment instructions, payment history and sign up for electronic securityholder communications.

Investor Centre (online portfolio updating capability)

Step 1: Go to www.computershare.com/au/investors
Step 2: Enter User ID and PIN or access the 'Register Here' button.
Step 3: Follow the prompts to register. For security purposes, Computershare will generate a PIN and mail it to your registered address.
Step 4: View, evaluate and manage your portfolio.

SHAREHOLDER INFORMATION

CONTINUED

Changing Shareholder Details

Changes to your name or address must be advised in writing to Computershare Investor Services Pty Limited. If you are sponsored by a broker, your notice in writing must be sent to your sponsoring broker.

Avexa Publications Mailing List

The Annual Report is a major source of information about the Company. Shareholders who do not wish to receive this publication can assist the Company to reduce costs by advising Computershare Investor Services Pty Limited in writing. Shareholders will continue to receive all other shareholder information, including the Notice of Annual General Meeting and Proxy. The Annual Report, other releases and general Company information are also available on the Company's website at www.avexa.com.au.

Annual General Meeting

10am on Tuesday, 4 October 2005
Computershare Conference Centre
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
Australia

Investor Relations

If you have any questions or issues regarding your shareholding or require hard copies of any information posted on Avexa's website, please contact the Avexa's Company Secretary, Ms Robyn Fry on 61 3 9208 4300.

Designed and produced by MBM Design Associates

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