AVEXA LIMITED ABN 53 108 150 750

The financial statements and other specific disclosures have been derived from the Avexa Limited full financial report for the financial year ended 30 June 2006. 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 2006 Annual Financial Report, including the independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request. The 2006 Annual Financial Report can be requested by telephone (Australia: (03) 9208 4300; Overseas: (613) 9208 4300) and by internet at avexa@avexa.com.au

The directors present their report together with the financial report of Avexa Limited (the Company) for the year ended 30 June 2006 and the auditor's report thereon.

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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.

Avexa Limited is a Melbourne-based biotechnology company with a focus on research and development of anti-infectives. The Company is developing drugs for the treatment of infectious diseases which have a significant unmet medical need. Avexa has dedicated resources and funding for key projects including antiviral drugs for HIV/AIDS and an antibiotic alternative for antibiotic-resistant bacterial infections. The Company's lead program is apricitabine which is currently in Phase IIb clinical trials. The Company also has exciting programs targeting HIV and drug resistant bacterial infections.

The Company is a public company listed on the ASX, incorporated and domiciled in Australia, and with a registered office and principal place of business located at 576 Swan Street, Richmond, VIC 3121.

Review and results of operations

In its second year of operation the Company successfully concluded a capital raising of over $14 million and commencement of a Phase IIb trial for its HIV drug AVX754, acquired in January 2005 from Shire Pharmaceuticals Group Plc and since renamed *apricitabine*.

Apricitabine

Apricitabine continues to be positioned to target those patients that are failing current therapies and recruitment for the Company's Phase IIb study to determine the efficacy of the drug in that particular patient group is expected to be concluded by the end of the fourth quarter of 2006. To date, five patients in the Phase IIb trial have successfully completed the 24 week blinded stage of treatment and moved into the open label part of the protocol, in which they receive 800 milligrams of apricitabine, twice daily as part of their therapy. Several of these patients have already been in the open label period for 10 weeks or longer. As per the trial protocol, patients will continue treatment for up to 24 weeks unless their therapy ceases to be effective in controlling viral load, or adverse effects preclude continued dosing with apricitabine. Avexa remains encouraged as it appears that the therapy is well tolerated and continues to be effective in these particular treatment resistant patients.

The FDA expects that all prospective antiretroviral candidates undergo cardiac safety studies. Avexa's Phase I cardiac safety study is well underway and expected to be finished on time and on budget. The Phase I co-dosing trial with tipranavir has been initiated and has received the go-ahead for patient enrolment. Tipranavir is a promising new protease inhibitor, and the co-dosing of tipranavir and apricitabine has the potential to expand clinicians' HIV armamentarium. This study is expected to be completed by the end of the fourth quarter of 2006.

Avexa had AUD $20 million in cash at 30 June 2006, which is sufficient funding to deliver the results from the Phase IIb, both Phase I trials and commence preparations for Phase III.

Initial feedback from regulatory authorities indicates that it may be possible for the Company to file for approval after 24 weeks dosing in the Phase III trial rather than the usual 48 week dosing period. This benefit stems from apricitabine's ability to target a broader range of HIV drug-resistant strains. Moving forward, the Company will be consulting with international regulatory authorities to determine the appropriate strategy to complete apricitabine's clinical development. As part of the Phase III preparation process, Avexa is planning for the manufacture of the requisite quantities of apricitabine and the acquisition of likely comparator drugs that may be required in the blinded trial.

A significant capital raising was undertaken during the financial year primarily to fund the costs of the AVX754 Phase IIb extension studies and Phase I studies and commencement of preparations for Phase III. The capital raising comprised the issue of 20.4 million shares to Sophisticated Investors and 39.5 million shares under a Prospectus dated 3 April 2006. All shares were offered at an issue price of 24 cents and total net proceeds of $13.5 million were raised, thereby creating an issued share capital at year end of 197,854,554 shares.

Drug discovery and development

HIV Integrase

Avexa is developing its own class of HIV integrase inhibitors and has submitted three patents to cover the class. Avexa's integrase inhibitors, whilst their mode of action is similar to those of Merck and Gilead currently in trials, are thought to act by a different mechanism. The possibility also exists that they will act on viruses resistant to the two integrase inhibitors currently in trials.

In its discovery and development of inhibitors to the preclinical stage Avexa's Discovery group is utilising both biochemical and virology techniques in conjunction with molecular modelling and protein-drug crystallography approaches to design and assess the activity of its compounds. Findings from these approaches are fed into Avexa's medicinal chemistry group and its dedicated resources at the Shanghai Institute of Organic Chemistry in China to facilitate the rapid synthesis and optimization of lead compounds.

During the discovery program lead compounds are also analysed for their drug like properties including *in vitro* and *ex vivo* absorption, distribution, metabolism and excretion (ADME) and their pharmacokinetic properties to ensure our lead compounds are developed with favourable drug like properties.

In addition to its international resources, Avexa is also working closely with one of Australia's premier scientific organisations, CSIRO, to identify and develop new lead inhibitors.

Avexa is on target to complete a proof of concept animal model of its lead inhibitor series in the first half of 2007. On successful completion of this study, the compounds will proceed into preclinical development then progress into clinical trials. As part of its other programs Avexa has established a clinical development group with experience in the development of HIV antiretrovirals.

Vancomycin Resistant Infections

Avexa has used knowledge of the architecture of the bacterial cell wall and its molecular make-up to rationally design a series of compounds that target not only antibiotic-resistant bacterial cell walls, but also antibiotic-sensitive bacterial cell walls. These compounds are highly effective at killing the target bacteria, and do not rapidly select for resistance.

Avexa has designed and synthesised a number of compounds that have potent anti-bacterial activity against methicillin-sensitive and methicillin-resistant strains of Staphylococcus aureus. The compounds also have activity against vancomycin-resistant and vancomycin-intermediate sensitive strains of Staphylococcus aureus. Over the last year Avexa has been systematically synthesizing and testing these compounds in models that will identify compounds with particular drug-like characteristics. These compounds have been synthesized in collaboration with Wollongong University, NSW. The collaboration with Wollongong University has been and remains supported by several Australian Research Council and National Health and Medical Research Council grants.

The most important outcome from this last year's work is that Avexa has two series of compounds. One series has the properties expected for a topically applied antibacterial agent, while a separate series has the properties of a systemically dosed antibacterial agent. An optimum compound from each series has been identified as the series lead, and each compound has just completed testing in models to demonstrate their drug-likeness, and suitability for development further as a topical and a systemic medicine for the treatment of antibiotic-resistant bacterial infections. The two lead compounds are presently in two independent models of antibacterial activity, to determine in-vivo proof of concept and efficacy.

Capital and corporate structure

The Company has no subsidiary or associated entity interests. When listed on the Australian Stock Exchange (ASX) on 23 September 2004, there were 80,312,102 fully paid shares on issue. Having conducted a capital raising in the 2005 financial year the opening balance of issued shares as at 1 July 2005 was 137,916,452 fully paid ordinary shares.

Following a placement of 20,408,000 shares to institutional and sophisticated investors at $0.24 per share in March 2006, the Company under a Prospectus dated 3 April 2006 issued a total of 39,530,102 new shares at $0.24 per share to raise $9.5 million before costs by way of a fully underwritten, non-renounceable rights issue. Share capital movements for the year are detailed in Note 15 to the financial statements.

Further information regarding the operations and financial position of the Company and its prospects for future financial years is required by section 299A of the Corporations Act 2001 and is set out in the Chairman and Chief Executive Officer's report.

Unissued shares under option

There were 280,000 (2005: 450,000) options to acquire ordinary shares issued to staff, 480,000 (2005: 1,050,000) to executive officers and 1,100,000 (2005: nil) to the CEO during the financial year. Terms and conditions of options issued are provided in the remuneration report. There were no options exercised during or since the end of the financial year up to the date of this report. 100,000 options lapsed upon the departure of employees during the financial year. Options issued after reporting date have been disclosed under the heading "Post reporting date option movements" on page 13 of this report. As at the date of this report unissued ordinary shares of the Company under option are:

Number of options granted	Exercise price	Expiry date
1,400,000	$0.40	30 June 2009
600,000	$0.40	30 June 2010
500,000	$0.19	30 June 2010
100,000	$0.40	30 June 2010
1,235,000	$0.30	30 June 2011
660,000	$0.19	25 Sept 2010
50,000	$0.40	25 Sept 2010
50,000	$0.40	21 March 2011
500,000	$0.40	30 June 2011
4,000,000	See below	See below
9,095,000		

The exercise price of the 4,000,000 options issued to Shire Biochem Inc. will be equal to the volume weighted average price of Avexa shares over the period commencing 30 business days before and ending 30 business days after the ASX trading day on which the results of the Company's Phase IIb study in respect of the compound AVX754 are announced. The exercise period for these options commences on 17 January 2008 and expires on the earlier of 17 January 2012 or the termination of the Shire Licence Agreement. At the present time, neither the exercise price nor consequently the dilutive factor are therefore capable of reliable measurement.

Directors

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

Name, qualification and independence status	Experience and special responsibilities
Dr H Niall Independent Non-Executive Director and Chairman	Independent non-executive director and Chairman since 7 September 2004. Member of the Avexa Audit Committee.
Dr J Chick Executive Director	Chief Executive Officer from 7 September 2004.
Dr E Malta Independent Non-Executive Director	Independent non-executive director and member of the Avexa Audit Committee appointed on 1 November 2005.
Mr S Cooper Independent Non-Executive Director	Independent non-executive director and member of the Avexa Audit Committee from 18 November 2005; appointed Chair of that committee on 20 December 2005.

Ms H Cameron was an independent non-executive director and Chair of the Avexa Audit Committee until her resignation on 20 December 2005.

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 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.

Directors' interests

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

Director	Ordinary Shares	Options to acquire ordinary shares
	Number	Number
Dr H Niall	1,125,000	-
Dr J Chick	625,000	1,100,000
Dr E Malta	102,500	-
Mr S Cooper	212,500	-

Shareholder approval was given on 4 October 2005 to the issue on 5 October 2005 of 600,000 and 500,000 options to CEO Dr Chick with exercise prices of \$0.40 and \$0.19 respectively, a five year term and progressive vesting entitlement.

Shareholder approval will be sought at the 2006 Annual General Meeting of the Company for the issue of 300,000 performance-related options to Dr Chick which will expire on 30 June 2011 and will have an exercise price of \$0.30, based on a 20% premium to the Company's volume weighted average share price for the first five days of share trading in the 2007 financial year. The options will be issued under the Avexa Employee Share Option Plan (ESOP) and will be exercisable 50% on 1 July 2007 and 50% on 1 July 2008.

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:

Director	Board Meetings		Audit Committee Meetings	
	Attended	Held (i)	Attended	Held (i)
Dr H Niall	12	12	3	4
Dr J Chick	13	13	1	#
Dr E Malta (appointed 1 November 2005)	8	9	3	3
Mr S Cooper (appointed 18 November 2005)	7	9	3	3
Ms H Cameron (resigned 20 December 2005)	4	6	2	2

\# As the Company's sole executive director, Dr Chick ordinarily is not present at Audit Committee meetings however Dr Chick attended the August 2005 meeting.

(i) Represents the number of meetings held during the time that the director held office.

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 Niall, Dr J Chick, Dr E Malta and Mr S Cooper 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.

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

On 5 July 2006, Mr Alan Boyd was appointed as Company Secretary. Mr Boyd is a Fellow of the Chartered Institute of Company Secretaries of Australia and is also the current Director, Finance and Administration of Zenyth Therapeutics Limited.

Ms R Fry was the Company Secretary of Avexa Limited since incorporation in April 2004 to her resignation on 5 July 2006. Ms Fry also holds the role of General Counsel and Company Secretary for Zenyth Therapeutics Limited.

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 2006 and is set out on page 14.

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 are due to receive the following amounts for the provision of the following services:

Statutory audit services	$41,000
Tax advisory services	$7,600
Other advisory services	$12,182
Total	$60,782

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REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and senior executives of the Company. Sections contained herein have been subject to audit unless otherwise stated.

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. Remuneration 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) 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 management provide for incentive remuneration of up to 10% 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% on personal performance and 50% 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 2006 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.

Incentive payments are made before the end of August in the year following the financial year performance review period. In respect of 2005 financial year performance, incentive payments of $14,769 were paid to staff in August 2005 and $60,000 to the CEO following shareholder approval in October 2005. An amount of $123,014 has been accrued during the 2006 financial year by way of an employee benefit provision in respect of performance for the 2006 financial year. $12,700 was approved and paid after year end in respect of incentive payments to staff and $40,000 to the CEO and this will be reflected in future remuneration tables as remuneration received in the year ended 30 June 2007.

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The CEO 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 - unaudited

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.
- 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 3 months notice in writing.
- The Company may terminate any contract for Cause as defined.

These clauses are the same for the CEO's contract except that a 6 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 ESOP.

In order to give the incentive a medium to long term impact, the options issued in 2006 have an approximate five year life and a vesting profile as follows:

Issues in 2006:	600,000 to CEO	500,000 to CEO	180,000 to staff	480,000 to SMT	100,000 to staff
Exercise price	$0.40	$0.19	$0.19	$0.19	$0.40
Immediate vesting	40% on issue; 20% on each of 5 October 2007, 5 October 2008 and 5 October 2009.	50% on each of 1 July 2006 and 1 July 2007	75% on 26 September 2006; 25% on 26 September 2007.	50% on each of 26 September 2006 and 26 September 2007.	37,500 on each of 26 Sept 2006 and 21 Mar 2007; 12,500 on each of 26 Sept 2007 and 21 Mar 2008.

With an exercise price of $0.40 the 600,000 options to the CEO and 100,000 to two members of staff were issued effectively as a catch up from the prior year issue of options.

For the offers of 500,000 options to the CEO, to staff and executive officers, the exercise price of $0.19 was set at a premium of 20% to the Company's volume weighted average closing share price for the first five days of trading in the 2006 financial year. The Company has adopted this mechanism as a policy for the determination of option exercise prices in the future.

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 "Non-cash Benefits" in the remuneration table represents the value of motor vehicle costs salary packaged by an 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. An amount of $350,000 was approved at the Company's inaugural Annual General Meeting held on 4 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 since incorporation have been and are currently $40,000 per annum with $80,000 for the role of Chairman, inclusive of superannuation and 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 are disclosed 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 tables, details of their service contracts are provided under the heading of "Contractual arrangements" earlier in this report. Figures in brackets represent the value of options as a percentage of remuneration. There were no termination or retirement benefits awarded in either of the 2005 or 2006 financial years. The Company operated throughout the 2005 and 2006 financial years with an executive management team comprising the CEO and three other persons.

In the following tables, 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.

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2006	Primary:			Post Employment	Share-based Payments:	
	Base Remuneration (salary and fees)	Non-cash Benefits	Bonuses / incentives	Superannuation Contributions	Shares and Options issued	Total remuneration
	$	$	$	$	$	$
Directors						
Non-executive						
Dr H Niall	67,278	-	-	12,722	-	80,000
Dr E Malta (appointed 1 November 2005)	24,465	-	-	2,202	-	26,667
Mr S Cooper (appointed 18 November 2005)	22,677	-	-	2,041	-	24,718
Ms H Cameron (resigned 20 Dec 2005)	5,034	-	-	13,786	-	18,820
Executive						
Dr J Chick	190,995	28,339	60,000	40,560	39,479 (11%)	359,373
Total compensation	**310,449**	**28,339**	**60,000**	**71,311**	**39,479**	**509,578**
Executive Officers (excluding directors)						
Current - Key Management Personnel						
Dr J Coates	184,325	21,430	-	12,150	24,027 (10%)	241,932
Dr S Cox	132,929	23,770	-	11,992	22,861 (12%)	191,552
Dr J Deadman	117,332	22,589	-	10,561	14,823 (9%)	165,305
Total compensation	**434,586**	**67,789**	**-**	**34,703**	**61,711**	**598,788**

For Key Management Personnel titles refer to the table on Page 12 of this report.
The Company's Director, Finance and Administration, Mr A Boyd, was remunerated by his employer Zenyth Therapeutics Limited (Zenyth) and provided these services by way of a service agreement between Zenyth and the Company.

2005	Primary:			Post Employment	Share-based Payments:	
	Base Remuneration (salary and fees)	Non-cash Benefits	Bonuses / incentives	Superannuation Contributions	Shares and Options issued	Total remuneration
	$	$	$	$	$	$
Directors						
Non-executive						
Dr H Niall	60,127	-	-	5,412	-	65,539
Ms H Cameron	-	-	-	47,279	-	47,279
Mr A Boyd	-	-	-	-	-	-
Ms R Fry	-	-	-	-	-	-
Executive						
Dr J Chick (iii)	142,918	20,094	-	21,490	-	184,502
Dr P Smith	-	-	-	-	-	-
Total compensation	**203,045**	**20,094**	**-**	**74,181**	**-**	**297,320**
Executive Officers (excluding directors)						
Current – Key Management Personnel						
Dr J Chick (i)	20,442	4,434	-	2,239	-	27,115
Dr J Coates	177,965	19,170	-	12,000	16,252 (7.2%)	225,387
Dr S 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
Total compensation	**412,401**	**68,852**	**-**	**34,248**	**42,662 (7.6%)**	**558,163**

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Remuneration table reference:

(i) Dr J Chick was an executive officer until his appointment as executive director and CEO 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.

Grants, modifications and exercise of options and rights over equity instruments granted as compensation - unaudited

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 or exercised during the financial year nor were there any alterations or modifications to existing terms and conditions.

Executives and title	Options granted		Number and % vested in year	Forfeited in Year	Financial years in which grant vests. For references (i) to (iv) see # below	Value yet to vest in $
	Number	Date				
Executive director						
Dr J Chick (CEO)	600,000	5 October 2005	240,000 (40%)	-	2006-2010 (i)	48,627
	500,000	5 October 2005	Nil	-	2007-2008 (ii)	46,540
Executive director	1,100,000					95,167
Company executives						
Dr J Coates (Chief	180,000	26 September 2005	Nil	-	2007-2008 (iii)	13,996
Scientific Officer)	20,000	26 September 2005	Nil	-	2007-2008 (iv)	1,555
Dr S Cox (Head of	150,000	26 September 2005	Nil	-	2007-2008 (iii)	11,663
Development)	20,000	26 September 2005	Nil	-	2007-2008 (iv)	1,555
Dr J Deadman (Head	100,000	26 September 2005	Nil	-	2007-2008 (iii)	7,775
of Chemistry)	20,000	26 September 2005	Nil	-	2007-2008 (iv)	1,555
Company executives	490,000					38,099

 # Vesting references in above table

The vesting profile for options issued during 2006 is as follows:

(i) 40% on issue and 20% on each of 5 October 2007, 5 October 2008 and 5 October 2009.

(ii) 50% on 1 July 2006 and 50% on 1 July 2007.

(iii) 50% on each of 26 September 2006 and 26 September 2007.

(iv) 75% on 26 September 2006 and 25% on 26 September 2007.

The fair value of options issued has been apportioned evenly over the vesting profile of the option giving rise to a fair value remuneration for the 2006 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 - unaudited

Incentive payments (relating to performance in the 2005 financial year) of $14,769 to staff and $60,000 to the CEO were made during the year under the Company's PMDS. Accruals for payments of $12,700 to staff and $40,000 to the CEO have been included in the 2006 result in respect of the 2006 performance year. All amounts are fully vested.

Fair value of options

The fair values 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. 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. A zero dividend yield assumption has been adopted in every valuation.

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Number and recipients of options	Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on value date	Risk free interest rate	Estimated volatility
600,000 to CEO	5 Oct 2005	30 June 2010	$0.108	$0.40	$0.21	5.38%	76.78%
500,000 to CEO	5 Oct 2005	30 June 2010	$0.140	$0.19	$0.21	5.38%	76.78%
180,000 to staff	26 Sept 2005	25 Sept 2010	$0.117	$0.19	$0.18	5.25%	76.78%
480,000 to SMT	26 Sept 2005	25 Sept 2010	$0.117	$0.19	$0.18	5.25%	76.78%
50,000 to staff	26 Sept 2005	25 Sept 2010	$0.009	$0.40	$0.18	5.25%	76.78%
50,000 to staff	21 Mar 2006	21 Mar 2011	$0.168	$0.40	$0.28	5.67%	79.10%

Post reporting date option movements

There has been no cancellation of options from the balance date to the date of this report.

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

(i) to offer 710,000 options to staff at an exercise price of $0.30 based on a 20% premium to the Company's volume weighted average share price for the first five days of share trading in the 2007 financial year. The options will be exercisable 50% on 1 July 2007 and 50% on 1 July 2008; and

(ii) to offer 300,000 options to Dr Chick subject to shareholder approval at the Company's 2006 Annual General Meeting. The options will expire on 30 June 2011 and will have an exercise price of $0.30 based on a 20% premium to the Company's volume weighted average share price for the first five days of share trading in the 2007 financial year. The options will be exercisable 50% on 1 July 2007 and 50% on 1 July 2008.

As part of the Company's long term incentive strategy, subsequent to reporting date, the Company's Board of Directors has also approved the offer and issue of:

(i) 525,000 options to all staff other than the CEO (including executive officers) at an exercise price of $0.30 based on a 20% premium to the Company's volume weighted average share price for the first five days of share trading in the 2007 financial year. The options will be exercisable 50% on 1 July 2007 and 50% on 1 July 2008; and

(ii) 500,000 options to 10 members of staff yet to receive an initial allocation of 50,000 options and 100,000 to one staff member upon employment by the Company set at the $0.40 exercise price adopted at the 1 July 2004 commencement of the Company's operations. The 500,000 options vest 40% on 1 July 2007 and a further 20% on each 1 July anniversary thereafter whilst the vesting profile for the 100,000 options is accelerated by one year. The 500,000 options expire on 30 June 2011 and the 100,000 on 30 June 2010.

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 upon 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.

Consequences of performance on shareholder wealth - unaudited

In considering the Company's performance and how best to generate shareholder value, 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 not 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 taken into account in assessing the performance of employees other than the CEO, for whom the Company's share price is included within the overall measure of performance against individual objectives.

Dated at Melbourne this 8th day of August, 2006. This report is made with a resolution of the directors.

Dr J Chick, Executive Director.

Concise financial report

AVEXA LIMITED ABN 53 108 150 750

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

To the Directors of Avexa Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006, 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 2006

Discussion and analysis of the income statement

The Company's revenue for the period comprised bank interest of $738,000 (2005: $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 has amortised the full $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 (2005: $6 million). The intellectual property of $12 million acquired at the commencement of the Company's operations on 1 July 2004 has now been fully amortised as at 30 June 2006.

(ii) Contract research and development costs

The increase in costs incurred for the year to $6.6 million (2005: $4.6 million) reflects the commencement of the Phase IIb trial for Avexa's anti-HIV drug AVX754, since renamed as apricitabine.

(iii) Employee expenses

The increase in employee expenses from $1.5 million to $2.5 million reflects the effective increase in staff numbers from 16 to 22 as the Company has expanded both its chemistry capability to advance earlier stage projects and development capability to manage the Phase IIb and later stage trials.

Discussion and analysis of the balance sheet

(i) Cash position

The Company conducted a capital raising in March and April 2006, and consequently issued 60 million shares at 24 cents per share for net proceeds of $13.5 million. These proceeds contributed towards a closing cash position of $20.2 million. Operational cash outflows of $8.9 million have been recorded together with investing outflows of $0.1 million to acquire plant and equipment.

(ii) Contributed equity

The March and April 2006 capital raising comprised a placement to sophisticated investors of 20,408,000 shares and a rights issue of 39,530,102 shares, both offered at 24 cents per share. Total transaction costs of $0.9 million have been deducted from the issue proceeds to generate issued capital of $13.5 million.

(iii) Tax benefits

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

Discussion and analysis of statement of cash flows

(i) Proceeds from issue of share capital

The net proceeds from issue of share capital reflects the above issues of equity.

(ii) Property, plant and equipment

The Company has renewed its two year operating lease covering most of its operational asset requirements such that only $148k of capital acquisitions was capitalised during the financial year, against which depreciation of $52k has been recorded.

Concise financial report
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Income statement		Company	
for the year ended 30 June 2006	Note	**2006**	2005
		$'000	$'000
Other revenues from ordinary activities		**738**	669
Total revenue from ordinary activities		**738**	669
Contract research and development costs	2(a)	**(6,576)**	(4,654)
Employee expenses		**(2,533)**	(1,482)
Share-based payment expense		**(122)**	(61)
Depreciation		**(52)**	(12)
Amortisation of intellectual property		**(6,000)**	(6,000)
Occupancy costs		**(332)**	(210)
Consulting costs		**(592)**	(215)
Professional services		**(497)**	(355)
Travel and accommodation		**(405)**	(244)
Raw materials and consumables used		**(424)**	(199)
Asset management expenses		**(282)**	(318)
Insurance		**(169)**	(150)
Other expenses from ordinary activities	2(c)	**(584)**	(366)
Profit / (loss) from ordinary activities before related income tax expense		**(17,830)**	(13,597)
Income tax expense relating to ordinary activities			-
Net profit / (loss) for the year	4	**(17,830)**	(13,597)
Basic earnings per share (ordinary shares)		**(12.1)**	(14.4)
Diluted earnings per share (ordinary shares)		**(11.8)**	(14.4)

The income statement is to be read in conjunction with the discussion and analysis on page 15 and notes to the financial statements set out on pages 20 to 23.

Concise financial report
AVEXA LIMITED ABN 53 108 150 750

Statement of changes in equity
for the year ended 30 June 2006

	Issued capital	Accumulated losses	Total equity
	$'000	**$'000**	**$'000**
Opening balance as at 1 July 2005	34,648	(13,536)	21,112
Non-profit items recognised directly in equity:	-	-	-
Placement to sophisticated investors	4,898	-	4,898
Shares offered under 3 April 2006 Prospectus	9,487	-	9,487
Transactions costs relating to placement and Prospectus shares	(869)	-	(869)
Total non-profit items recognised directly in equity	**13,516**	-	**13,516**
Loss for the period	-	(17,830)	(17,830)
Total recognised income and expense for the period	-	**(17,830)**	**(17,830)**
Equity settled share-based payment transactions	-	122	122
Closing balance as at 30 June 2006	**48,164**	**(31,244)**	**16,920**

Statement of changes in equity
for the year ended 30 June 2005

	Issued capital	Accumulated losses	Total equity
	$'000	**$'000**	**$'000**
Opening balance as at 1 July 2004	-	-	-
Non-profit items recognised directly in equity:			
Consideration for acquisition of intellectual property	12,000	-	12,000
Share capital issue	12,000	-	12,000
Placement to sophisticated investors	2,400	-	2,400
Shares offered under 15 February 2005 Prospectus	5,600	-	5,600
Priority Offer shares issued under 15 February 2005 Prospectus	1,521	-	1,521
Placement of shares to Shire under Shire Licence Agreement	2,000	-	2,000
Transaction costs relating to Placements and Prospectus offers	(873)	-	(873)
Total non-profit items recognised directly in equity	**34,648**	-	**34,648**
Loss for the period	-	(13,597)	(13,597)
Total recognised income and expense for the period	-	**(13,597)**	**(13,597)**
Equity settled share-based payment transactions	-	61	61
Closing balance as at 30 June 2005	**34,648**	**(13,536)**	**21,112**

Amounts disclosed in the statement of changes in equity are stated net of tax.

The statement of changes in equity is to be read in conjunction with the discussion and analysis on page 15 and notes to the financial statements set out on pages 20 to 23.

Concise financial report
AVEXA LIMITED ABN 53 108 150 750

Statement of financial position		Company	
as at 30 June 2006	Note	**2006**	2005
		$'000	$'000
Current assets			
Cash assets		**20,228**	15,727
Receivables		**34**	64
Other		**106**	81
Total current assets		**20,368**	15,872
Non-current assets			
Intangibles		**-**	6,000
Property, plant and equipment		**217**	121
Total non-current assets		**217**	6,121
Total assets		**20,585**	21,993
Current liabilities			
Payables		**3,357**	687
Provisions		**280**	154
Total current liabilities		**3,637**	841
Non-current liabilities			
Provisions		**28**	40
Total non-current liabilities		**28**	40
Total liabilities		**3,665**	881
Net assets		**16,920**	21,112
Equity			
Contributed equity	5	**48,164**	34,648
Accumulated losses	4	**(31,244)**	(13,536)
Total equity		**16,920**	21,112

The balance sheet is to be read in conjunction with the discussion and analysis on page 15 and notes to the financial statements set out on pages 20 to 23.

Concise financial report
AVEXA LIMITED ABN 53 108 150 750

Statements of cash flows	Company	
for the year ended 30 June 2006	**2006**	2005
	$'000	$'000
Cash flows from operating activities		
Cash receipts in the course of operations	**783**	261
Cash payments in the course of operations	**(10,209)**	(7,760)
Interest received	**535**	625
Income taxes paid	**-**	-
Net cash used in operating activities	**(8,891)**	(6,874)
Cash flows from investing activities		
Payments for property, plant and equipment	**(144)**	(133)
Net cash used in investing activities	**(144)**	(133)
Cash flows from financing activities		
Proceeds from issue of share capital	**14,385**	23,521
Costs of raising share capital	**(849)**	(873)
Consideration for taking on employee entitlements	**-**	86
Net cash provided by financing activities	**13,536**	22,734
Net increase in cash held	**4,501**	15,727
Cash at the beginning of the financial year	**15,727**	-
Cash at the end of the financial year	**20,228**	15,727

The statement of cash flows is to be read in conjunction with the discussion and analysis on page 15 and notes to the financial statements set out on pages 20 to 23.

Concise financial report
AVEXA LIMITED ABN 53 108 150 750

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1 Basis of preparation of concise financial report
2 Profit before related income tax expense
3 Segment reporting
4 Accumulated losses
5 Issued capital
6 Dividends
7 Contingencies
8 Events subsequent to reporting date
9 Explanation of transition to AIFRS

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. The presentation currency is Australian dollars.

Management has discussed with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates.

	Company	
	2006	2005
	$'000	$'000
2 Profit before related income tax expense		
(a) Individually material items included in profit before related income tax expense:		
Contract research and development expenditure	**6,576**	4,654
Direct research and development expenditure	**3,721**	1,980
Research and Development	**10,297**	6,634
(b) Profit before related income tax expense has been arrived at after charging the following items:		
Depreciation of plant and equipment	**52**	12
Amortisation of intellectual property:	**6,000**	6,000
Amounts transferred to provisions for employee entitlements	**278**	155
Operating lease rental expense	**120**	120
(c) Other expenses		
From operating activities		
Corporate administration	**87**	109
Intellectual property management	**62**	72
Advertising and promotion	**214**	75
Workplace administration	**120**	62
Finance expenses	**5**	6
Other expenses	**96**	42
Other expenses from operating activities	**584**	366

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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 Income statement and balance sheet.

4 Accumulated losses

	Company	
	2006	2005
	$'000	$'000
Accumulated losses at the beginning of the financial year	**(13,536)**	-
Net loss attributable to members of the Company	**(17,830)**	(13,597)
Share-based payment expense	**122**	61
Accumulated losses at the end of the financial year	**(31,244)**	(13,536)

5 Issued capital

Issued and paid up capital	**2006**		2005	
	$'000	**Number**	$'000	Number
197,854,554 (2005: 137,916,452) ordinary shares, fully paid	**48,164**	**197,854,554**	34,648	137,916,452
Movements during the year were as follows:				
Balance at the beginning of the financial year	**34,648**	**137,916,452**	-	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	**4,898**	**20,408,000**	2,400	12,000,000
Shares offered under 3 April 2006 (2005: 15 February 2005) Prospectus	**9,487**	**39,530,102**	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	**(869)**	-	(873)	-
Share capital at the end of the financial year	**48,164**	**197,854,554**	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 1,860,000 (2005: 1,500,000) options were issued to employees under the Avexa Employee Share Option Plan as summarised in the following table.

Issues in 2006:	600,000 to CEO	500,000 to CEO	180,000 to staff	480,000 to SMT	100,000 to staff
Exercise price	$0.40	$0.19	$0.19	$0.19	$0.40
Immediate vesting	40% on issue; 20% on each of 5 October 2007, 5 October 2008 and 5 October 2009.	50% on each of 1 July 2006 and 1 July 2007	75% on 26 September 2006; 25% on 26 September 2007.	50% on each of 26 September 2006 and 26 September 2007.	37,500 on each of 26 Sept 2006 and 21 Mar 2007; 12,500 on each of 26 Sept 2007 and 21 Mar 2008.

5 Issued capital (continued)

Options to acquire ordinary shares

4,000,000 options were issued to Shire Biochem Inc. ("Shire") during the 2005 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 4 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.

6 Dividends

No dividends were paid or proposed in the current or prior financial years.

7 Contingencies

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 no provisions are 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 and assets not considered / considered remote

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

8 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.

9 Explanation of transition to AIFRS

This is the Company's first financial report prepared in accordance with AIFRS. The accounting policies set out in the significant accounting policies section of the Company's full financial report have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in this financial report for the year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet as at 1 July 2004, the Company's date of transition.

In preparing its opening AIFRS balance sheet, the Company has adjusted amounts reported previously in financial reports prepared in accordance with its old basis of accounting (previously Australian Generally Accepted Accounting Principles or AGAAP). An explanation of how the transition from previous GAAP to AIFRS has affected the Company's financial position, financial performance and cash flows is set out in the following table and the notes that accompany the table.

(i) Financial position

Net assets are unaffected by the transition from previous AGAAP to AIFRS and therefore no commentary or analysis is required.

(ii) Financial performance

The only expense or revenue item in the income statement that has been affected by the transition is the 'Employee expense' item, which has been increased to reflect the fair value of equity-settled share-based payments by $61,000 for the full financial year ended 30 June 2005. The share-based payment expense for the 2006 financial year is $122,264.

On the basis that no revenue item or any other expense items are affected by the transition, an abridged version of the income statement is therefore reflected in the following table.

(iii) Cash flows

There are no adjustments required between the statement of cash flows prepared under AIFRS and previous AGAAP.

(iv) Equity

Set out below are the quantitative impacts of the changes on total equity as at the 1 July 2004 date of transition and at 30 June 2005 and on net profit for the year ended 30 June 2005.

9 Explanation of transition to AIFRS (continued)

(a) Reconciliation of equity as presented under previous AGAAP to that under AIFRS

	30 June 2005	1 July 2004
	$'000	$'000
Total equity under AGAAP	21,112	-
Adjustments to accumulated losses (net of tax):		
Recognition of share-based payment expense (i)	(61)	-
	21,051	-
Adjustments to accumulated losses (net of tax)		
Recognition of share-based payment expense (i)	61	-
Total equity under AIFRS	**21,112**	-

(b) Reconciliation of results as presented under AGAAP to that under AIFRS

	2005
	$'000
Net loss as reported under AGAAP	13,536
Share-based payment expense (i)	61
Net loss under AIFRS	**13,597**

(i) Share-based payments

Under AASB 2 *Share Based Payments*, the Company recognises 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 were not recognised under previous AGAAP.

(c) Reconciliation of cash flows as presented under AGAAP to that under AIFRS

There are no material impacts on the Company's reported cash flows presented under previous AGAAP arising from the adoption of AIFRS.

Other Accounting Impact - Impairment

Under previous AGAAP the carrying amounts of non-current assets were reviewed at reporting date to determine whether they were in excess of their recoverable amount. If the carrying amount exceeded the recoverable amount, then the asset was written down to its recoverable amount, with the write down recognised as an expense in the income statement in the period in which it occurred.

Under AIFRS, the carrying amounts of non-current assets are reviewed each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset is 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 previous AGAAP, 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.

On the basis that the non-current assets of the Company are utilised to facilitate the development and commercialisation of scientific projects to generate sustainable royalty and other revenue streams in the long term, a review of the Company's non-current assets at reporting date did not reveal any indication of impairment.

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In the opinion of the directors of Avexa Limited (the Company), the accompanying concise financial report and the audited remuneration disclosures of the Remuneration Report in the Directors' Report, of the Company for the year ended 30 June 2006, set out on pages 15 to 23:

(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, 2006.

Signed in accordance with a resolution of the directors.

Dr J Chick
Executive Director

AVEXA LIMITED ABN 53 108 150 750

Independent audit report on concise financial report to the members of Avexa Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The concise financial report comprises the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes 1 to 9, and the accompanying discussion and analysis on the income statement, statement of changes in equity, balance sheet and statement of cash flows, and the directors' declaration 15 to 23 for Avexa Limited (the Company) for the year ended 30 June 2006.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures) required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in the audited sections of the Directors' Report and not in the concise financial report.

The Remuneration Report also contains unaudited information not required by Australian Accounting Standard AASB 124 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. The directors are also responsible for the remuneration disclosures contained in the Directors' 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 that the remuneration disclosures comply with AASB 124. 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 and the remuneration disclosures of the Company for the year ended 30 June 2006. Our audit report on the full financial report and the remuneration disclosures was signed on 8 August 2006, 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 2006 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

KPMG

B W Szentirmay
Partner

Melbourne

8 August 2006