

AVEXA LIMITED ABN 53 108 150 750

The directors present their report on Avexa Limited (the 'Company') for the six months ended 31 December 2007 and the review report thereon.

### Directors

The directors of the Company at any time during or since the end of the interim period are:

<b>Name, qualification and independence status</b>	<b>Experience and special responsibilities</b>
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.
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.
Dr J Sime Independent Non-Executive Director	Independent non-executive director and member of the Avexa Audit Committee from 7 June 2007.

No director has any interest in a contract/proposed contract with the Company or a related entity.

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.

<b>Director</b>	<b>Number of ordinary shares</b>	<b>Number of options to acquire ordinary shares</b>
Dr H Niall	1,730,000	-
Dr J Chick	996,657	1,400,000
Mr S Cooper	602,500	-
Dr J Sime	65,000	-

### Review of operations

The principal activity of the Company during the course of the financial half-year was the development and commercialisation of anti-infective pharmaceutical programs and projects.

The Company has recorded a loss of \$17.3 million for the six months to 31 December 2007 (31 December 2006: \$8.0 million). Avexa's operating cash consumption for the six months was below budget at \$9.9 million (31 December 2006: \$9.3 million) and reported closing cash resources of \$66.6 million at 31 December 2007 (31 December 2006: \$20.4 million).

Avexa's portfolio at 31 December 2007 comprised the following projects.

#### Apricitabine (ATC)

Over the first half year we have completed the final dosing period of the 48 week ATC Phase IIb trial for all remaining patients and the data is expected to be available for release before the end of the current quarter. We have finalised the design and preparations for the pivotal Phase III clinical trials for our ATC development programme. In meetings with both the FDA and EMEA on the results of the Phase IIb trial and the Phase III plans the feedback has been supportive and encouraging and has been incorporated into our final protocols.

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This is a clear demonstration of the progress of, and value attributed to, ATC as it progresses towards registration and commercialisation.

In addition to the Phase III progress, during the half year the Company reported excellent results in respect of its 24 week Phase IIb data. The decision of the patients concluding the Phase IIb study to enrol in the optional extension study (39 out of an eligible 40) has provided further confirmation of the benefits that ATC has been able to provide in their treatment regimen.

The data from the 24 week segment of the Phase IIb clinical trial of ATC demonstrated that in over 80% of patients treated with ATC, the level of HIV in the blood was reduced to below detectable levels after 24 weeks. This was markedly better than those patients on the 3TC control. These data were presented at the prestigious CROI conference in Boston in February, 2008 and received a good response.

An analysis of the CD4 cells of patients clearly showed that there were CD4 cell increases of 28 – 39% and 73 – 86% in the ATC 600mg and 800mg arms respectively, compared to the 3TC treated patients. CD4 cells are essential for a healthy immune system, and it is these cells that are primarily destroyed by HIV infection.

In patients where virus could be isolated no virus resistant to ATC was identified after 24 weeks of therapy, which is consistent with the potent suppression of HIV replication and the ideal properties of a long-term anti-HIV therapy.

The excellent safety profile of ATC continued to be demonstrated in ATC treated patients with no serious adverse events related to ATC being reported and no patients withdrawing from the trial because of any side effects related to ATC.

For the first of our two pivotal Phase III trials, referred to as AVX-301, we achieved the significant milestone of first site initiation prior to 31 December 2007. This first site was located in the United States and further sites have since been initiated. At the beginning of February Avexa held the Phase III “kick-off” meeting for North American based clinicians which provides the training and instruction necessary to facilitate the next major milestone of first patient screening and enrolment.

### ***Drug discovery and development***

#### **HIV Integrase**

Avexa's HIV integrase inhibitor program has identified and patented a series of inhibitors with potency at least equivalent to that of the only marketed integrase inhibitor, raltegravir. Avexa's lead compounds have also been tested in vitro against integrase enzymes that contain mutations conferring resistance to raltegravir in the clinic. Encouragingly the results demonstrated Avexa's compounds maintain activity against the resistant integrase whereas raltegravir shows decreased potency, as expected. The activities of the lead compounds indicate potential superiority over the clinically prescribed raltegravir, both in terms of activity against wild type and resistant HIV integrase.

Over the last half-year a lead compound has been chosen for entry into formal preclinical studies. To date, the synthesis of the compound has been successfully scaled-up giving large quantities of material for the preclinical studies. Pre-formulation studies are currently being conducted on the lead compound.

Avexa is also utilizing state of the art technologies and approaches in two programs for the development of novel second generation integrase inhibitors.

One program is jointly funded by the Australian Research Council and Avexa in a collaborative program with Monash University and St Vincents Institute of Medical Research to identify fragments that bind to integrase using a fragment based drug design approach. Fragments have been identified that bind to different regions of the integrase protein and these fragments are being modified to enhance their affinity for their development as clinically useful integrase inhibitors.

In another program, Avexa won a competitive Commercial Ready Grant from AusIndustry in support of a \$4.3 million program to develop novel integrase inhibitors. In this study Avexa is developing novel constructs and structural biology methodologies and technologies to identify where inhibitors bind to integrase to utilize in their further development into potent inhibitors. This program utilizes the expertise and resources at BioC3 together with surface plasmon resonance based interaction technology, both in partnership with CSIRO Molecular Health Technologies.

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**HIV Co-receptor inhibitors**

Avexa has been working in collaboration with TargetDrug of Shanghai to develop inhibitors of CCR5 that prevent HIV binding to cells. Over the last half-year the two groups have taken the lead compound, nifeviroc, into clinical pharmacokinetic studies and have identified another separate series of lead compounds suitable for further development as antivirals.

Avexa is applying its extensive experience and understanding of HIV drug discovery to try to achieve the three main goals of CCR5 inhibitor discovery which are to build potent antiviral activity in a metabolically stable structure but which does not have the side effects associated with other compounds in this field.

The discovery program has made considerable progress in the last 6 months with the discovery of several lead compounds that demonstrate potent activity in HIV infected cells. During this period, in parallel to increasing the potency of this series, a number of structures have been discovered that do not have some of the less desirable features of the CCR5 inhibitors described in the clinic. Avexa is working to improve activity and impart more desirable drug like properties to the molecules, particularly metabolic stability, giving them a competitive edge over future antivirals. Maraviroc is the only CCR5-targeting inhibitor that has been approved.

**Vancomycin Resistant Infections**

The increase of bacterial infections with drug resistant *Staphylococcus aureus* (*S. aureus*) has highlighted the need for new antibacterial agents. Avexa's antibacterial program in conjunction with the University of Wollongong has identified novel compounds with activity against drug resistant and wild type *S. aureus*. Studies using a topical application in animal models have confirmed the initial results indicating Avexa's lead compound is as active in a single application as the current standard, Bactroban, is when applied twice a day for 5 days.

In the last half-year the lead compound has been progressed into preclinical studies for development as a topical agent for treatment of *S. aureus* and Methicillin-Resistant *S. aureus* (MRSA) colonisations/infections.

The chemistry methodology to synthesise larger quantities of the lead compound has been developed and scale-up chemistry is in progress. To date, results from the preclinical studies have been positive, indicating the compound is suitable for topical use with no photo-instability or skin irritancy being observed.

On successful completion of the preclinical studies the compound will enter phase I clinical trials.

**Post Balance Date Events**

Following the receipt of positive feedback from the regulatory agencies which allows the Company to progress ATC into pivotal Phase III studies, on 3 January, 2008 the Company announced that that it had initiated its first Phase III site.

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

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

The lead auditor's independence declaration forms part of the Directors' Report for the six months ended 31 December 2007 and is set out on page 5 of this report.

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**Rounding off**

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

Dated at Melbourne this 20th day of February 2008.

Signed in accordance with a resolution of the directors.

Dr H Niall (Chairman)

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**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 review for the six month period ended 31 December 2007, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

B W Szentirmay  
Partner

Melbourne

20 February 2008

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**Interim income statement  
for the half-year ended 31 December 2007**

	Note	31 December 2007 \$'000	31 December 2006 \$'000
Other revenues from ordinary activities	7	3,051	489
<b>Revenue</b>		<b>3,051</b>	<b>489</b>
Contract research and development costs		(14,276)	(4,621)
Raw materials and consumables used		(234)	(267)
Personnel expenses excluding share-based payment expense		(2,906)	(1,644)
Share-based payment expense		(275)	(109)
Occupancy costs		(715)	(154)
Depreciation		(65)	(33)
Asset management expenses		(128)	(100)
Legal and professional services		(320)	(594)
Travel		(422)	(233)
Insurance		(109)	(75)
Intellectual property		(431)	(167)
Other expenses		(486)	(458)
<b>Loss before income tax expense</b>		<b>(17,316)</b>	<b>(7,966)</b>
Income tax expense		-	-
<b>Loss for the period</b>	8	<b>(17,316)</b>	<b>(7,966)</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	13	(4.3)	(3.9)
Diluted earnings per share	13	(4.3)	(3.9)

The Interim Income Statement is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 14.

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**Interim statement of changes in equity  
for the half-year ended 31 December 2007**

	<b>Issued capital</b>	<b>Accumulated losses</b>	<b>Total equity</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance as at 1 July 2007	137,194	(45,904)	91,290
Non-profit items recognised directly in equity:			
Share issue costs	(3)	-	(3)
Shares issued upon conversion of options	44	-	44
Total non-profit items recognised directly in equity	41	-	41
Loss for the period	-	(17,316)	(17,316)
<b>Total recognised income and expense for the period</b>	<b>-</b>	<b>(17,316)</b>	<b>(17,316)</b>
Equity settled share-based payment transactions	-	275	275
<b>Closing balance as at 31 December 2007</b>	<b>137,235</b>	<b>(62,945)</b>	<b>74,290</b>

**Interim statement of changes in equity  
for the half-year ended 31 December 2006**

	<b>Issued capital</b>	<b>Accumulated losses</b>	<b>Total Equity</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance as at 1 July 2006	48,164	(31,244)	16,920
Non-profit items recognised directly in equity:			
Net proceeds of Avexa 2006 Share Purchase Plan	9,559	-	9,559
Total non-profit items recognised directly in equity	9,559	-	9,559
Loss for the period	-	(7,966)	(7,966)
<b>Total recognised income and expense for the period</b>	<b>-</b>	<b>(7,966)</b>	<b>(7,966)</b>
Equity settled share-based payment transactions	-	109	109
<b>Closing balance as at 31 December 2006</b>	<b>57,723</b>	<b>(39,101)</b>	<b>18,622</b>

*The Interim Statement of Changes in Equity is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 14.*

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**Interim balance sheet  
as at 31 December 2007**

	Note	31 December 2007 \$'000	30 June 2007 \$'000
<b>Assets</b>			
Cash and cash equivalents		66,610	76,874
Trade and other receivables		685	148
Prepayments		213	76
<b>Total current assets</b>		<b>67,508</b>	<b>77,098</b>
Property, plant and equipment		660	345
Intangible assets		16,535	16,535
<b>Total non-current assets</b>		<b>17,195</b>	<b>16,880</b>
<b>Total assets</b>		<b>84,703</b>	<b>93,978</b>
<b>Liabilities</b>			
Trade and other payables		9,907	2,212
Employee benefits		450	347
Deferred income		-	90
<b>Total current liabilities</b>		<b>10,357</b>	<b>2,649</b>
Employee benefits		56	39
<b>Total non-current liabilities</b>		<b>56</b>	<b>39</b>
<b>Total liabilities</b>		<b>10,413</b>	<b>2,688</b>
<b>Net assets</b>		<b>74,290</b>	<b>91,290</b>
<b>Equity</b>			
Share capital	8	137,235	137,194
Accumulated losses	8	(62,945)	(45,904)
<b>Total equity</b>		<b>74,290</b>	<b>91,290</b>

The Interim Balance Sheet is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 14.

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**Interim statement of cash flows  
for the half-year ended 31 December 2007**

	<b>31 December 2007 \$'000</b>	31 December 2006 \$'000
<b>Cash flows from operating activities</b>		
Cash receipts	894	191
Cash paid to suppliers and employees	(13,120)	(9,944)
Interest received	2,301	489
Net cash used in operating activities	(9,925)	(9,264)
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(380)	(118)
Net cash used in investing activities	(380)	(118)
<b>Cash flows from financing activities</b>		
Proceeds from exercise of options	44	-
Share issue costs	(3)	-
Proceeds from issue of shares under Avexa 2006 Share Purchase Plan (Note 8)	-	9,539
Net cash from financing activities	41	9,539
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(10,264)</b>	<b>157</b>
Cash and cash equivalents at 1 July 2007	76,874	20,228
Cash and cash equivalents at 31 December 2007	66,610	20,385

*The Interim Statement of Cash Flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 14.*

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## 1 Reporting entity

Avexa Limited (the 'Company') is a company domiciled in Australia. The interim financial report of the Company as at and for the six months ended 31 December 2007 is available upon request from the Company's registered office at 576 Swan Street, Richmond, VIC 3121 or at [www.avexa.com.au](http://www.avexa.com.au)

## 2 Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in Australian dollars in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Company as at and for the year ended 30 June 2007. This interim financial report was approved by the Board of Directors on 20 February 2008.

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 have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 3 Significant accounting policies

The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2007.

The Company has adopted AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED151 and Other Amendments (April 2007)* (AASB 2007-4). No accounting adjustments were required as a result of adopting this accounting standard.

## 4 Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2007.

## 5 Basis of preparation

The financial report is presented in Australian dollars and is prepared on the historical cost basis.

The financial report has been prepared on a going concern basis, which assumes the settlement of liabilities and realisation of assets in the normal course of business. At 31 December 2007 the Company had \$66.6 million of funds available to undertake all budgeted activities for the 2008 calendar year in accordance with the Company's long term strategy.

The Company's strategy includes obtaining additional funding in the 2008 financial year in order to progress all existing projects, in particular Phase III of the apricitabine (or ATC) project, and to provide sufficient working capital for the Company until such time as self-sustaining revenue streams are realised.

Should additional funding not be procured, the Company will consider the impact on budgeted funding allocations and will prioritise spending in order to minimise the impact on the Company's working capital requirements. The ability of the Company to continue as a going concern beyond the 2008 calendar year is dependent upon successful project outcomes and procurement of funds and the ability of the Company to manage expenditure within the budgeted range.

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**6 Segment reporting**

A segment is a distinguishable component of a company engaged in providing products or services within a particular business sector or geographical environment. The Company operates within a single business segment comprising anti-infective research and development.

Whilst the Company has historically operated within a single geographical segment being that of Australia, during the half year ended 31 December 2007, the Company recruited its first US-based employee and set up wholly owned subsidiary entities in the United States and England in order to meet certain clinical trial requirements for local legal representation. These entities have not traded in their own right nor do they constitute a segment for segment reporting purposes.

	<b>31 December 2007</b>	31 December 2006
	<b>\$'000</b>	\$'000
<b>7 Other Revenues from ordinary activities</b>		
Interest income	2,417	489
Rental income	227	-
Commercial Ready Grant Income	407	-
<b>Total other revenues</b>	<b>3,051</b>	489

**8 Issued capital and accumulated losses****(i) Issued and paid up capital**

406,020,675 (2006: 246,991,554) ordinary shares, fully paid	<b>137,235</b>	57,723
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The following movements in ordinary shares were recorded during the half-year ended 31 December 2007.

	<b>2007</b>	2006	<b>2007</b>	2006
	<b>Number of shares</b>	Number of shares	<b>\$'000</b>	\$'000
Balance brought forward as at 1 July 2007	<b>405,863,175</b>	197,854,554	<b>137,194</b>	48,164
Issue of shares upon exercise of options on 26 July 2007	<b>147,500</b>	-	<b>42</b>	-
Issue of shares upon exercise of options on 22 October 2007	<b>10,000</b>	-	<b>2</b>	-
Issue of shares for cash consideration under Avexa 2006 Share Purchase Plan, net of share issue costs	-	49,137,000	-	9,559
Balance of prior year capital raising costs	-	-	<b>(3)</b>	-
<b>Balance carried forward as at 31 December 2007</b>	<b>406,020,675</b>	246,991,554	<b>137,235</b>	57,723

**(i) Issued and paid up capital**

There were no dividends paid or proposed during the period ended 31 December 2007 or in the previous interim period. 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.

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**8 Issued capital and accumulated losses (continued)****(ii) Accumulated losses**

	<b>31 December 2007</b>	31 December 2006
	<b>\$'000</b>	\$'000
Accumulated losses brought forward as at 1 July 2007	<b>(45,904)</b>	(31,244)
Loss for period	<b>(17,316)</b>	(7,966)
Equity component of share-based payments	<b>275</b>	109
Accumulated losses carried forward as at 31 December 2007	<b>(62,945)</b>	(39,101)

**(iii) Options**

There were 210,000 (2006: 2,235,000) options to acquire ordinary shares issued during the half-year ended 31 December 2007 under the Avexa Employee Share Option Plan ('ESOP') and 4,000,000 issued to Shire Biochem Inc. 157,500 options were exercised and 320,000 cancelled during the period. Movements for the period are summarised in the following table.

Grant Date	Expiry Date	Exercise Price	No of options at beginning of period	Options Granted	Options cancelled / exercised	No of options at end of period
12 Nov 2004	30 June 2009	\$0.40	1,370,000	-	(10,000)	1,360,000
26 Sep 2005	25 Sep 2010	\$0.40	50,000	-	-	50,000
26 Sep 2005	25 Sep 2010	\$0.19	480,000	-	-	480,000
26 Sep 2005	25 Sep 2010	\$0.19	135,000	-	(5,000)	130,000
5 Oct 2005	30 June 2010	\$0.40	600,000	-	-	600,000
5 Oct 2005	30 June 2010	\$0.19	500,000	-	-	500,000
21 Mar 2006	21 March 2011	\$0.40	50,000	-	(12,500) / (37,500)	-
1 July 2006	30 June 2010	\$0.40	100,000	-	-	100,000
1 July 2006	30 June 2011	\$0.40	350,000	-	(60,000) / (40,000)	250,000
1 July 2006	30 June 2011	\$0.30	710,000	-	(10,000) / (15,000)	685,000
1 July 2006	30 June 2011	\$0.30	450,000	-	(37,500) / (50,000)	362,500
1 Nov 2006	30 June 2011	\$0.30	300,000	-	-	300,000
1 Nov 2006	30 June 2011	\$0.40	100,000	-	-	100,000
25 May 2007	30 April 2012	\$0.63	5,900,000	-	(200,000)	5,700,000
22 Oct 2007	30 June 2012	\$0.63	-	210,000	-	210,000
<b>Total employee options on issue</b>			<b>11,095,000</b>	<b>210,000</b>	<b>(320,000) / (157,500)</b>	<b>10,827,500</b>
<b>Shire Biochem Inc (# overleaf)</b>			<b>4,000,000</b>	<b>-</b>	<b>-</b>	<b>4,000,000</b>
<b>Total options on issue at 31 December 2007</b>			<b>15,095,000</b>	<b>210,000</b>	<b>(320,000) / (157,500)</b>	<b>14,827,500</b>

A summary of key terms and conditions for the 210,000 options issued during the half year is provided below.

210,000 options issued to staff with an exercise price of \$0.63, expiry date of 30 June 2012, and exercisable 40% on 1 July 2008 and 30% on each of 1 July 2009 and 1 July 2010 provided that the Avexa share price reaches and maintains for not less than 15 consecutive trading days a value of at least 125%, 150% and 175% of the exercise price for the first, second and third tranches of options respectively.

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## 8 Issued capital and accumulated losses (continued)

### (iii) Options (continued)

# The exercise price of the 4,000,000 options issued to Shire Biochem Inc. of 70.4 cents (adjusted following the rights issue to 64.2 cents in accordance with ASX Listing Rule 6.22) is 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 of 19 March 2007 on which the 21 day results of the Company's apricitabine (ATC) Phase IIb study were announced. The exercise period for these options commenced on 17 January 2008 and expires on the earlier of 17 January 2012 or the termination of the Shire Licence Agreement.

## 9 Events subsequent to balance date

Following the receipt of positive feedback from the regulatory agencies which allows the Company to progress ATC into pivotal Phase III studies, on 3 January, 2008 the Company announced that it had initiated its first Phase III site.

Other than as referred to above, there has not arisen 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.

## 10 Contingent liabilities and contingent assets

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

## 11 Related parties

Key management personnel receive compensation in the form of short term employee benefits, post employment benefits and equity compensation benefits (see Note 14). Key management personnel received total compensation of \$1,153,001 for the six months ended 31 December 2007 (six months ended 31 December 2006: \$607,348). Total remuneration is included within 'Personnel expenses' and 'Share-based payment expense' in the Income Statement.

## 12 Financial instruments

Other than a flexible forward transaction to provide for a payment of US\$3 million on 8 January 2008, the Company did not enter into any foreign currency hedging arrangements or other derivative financial instruments during the financial period. The fair values of all financial assets and liabilities at balance date and the prior reporting period balance date approximate the carrying amounts as recorded in the balance sheet. For receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

## 13 Earnings per share

(i) Earnings reconciliation	31 December 2007	31 December 2006
Net loss:	\$'000	\$'000
Basic earnings	(17,316)	(7,966)
Diluted earnings	(17,316)	(7,966)

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**13 Earnings per share (continued)**

	<b>31 December 2007</b>	31 December 2006
<b>(ii) Weighted average number of shares used as the denominator</b>	<b>Number</b>	Number
Number for basic earnings per share:		
Ordinary shares	<b>405,994,350</b>	202,687,702
Number for diluted earnings per share:		
Ordinary shares	<b>405,994,350</b>	202,687,702
Effect of share options on issue	<b>14,897,541</b>	5,226,148
	<b>420,891,891</b>	207,913,850

All options have exercise prices between \$0.19 and \$0.63 and have been treated as dilutive in nature for the purposes of calculating diluted earnings per share.

**14 Employee benefits**
**(i) As at 31 December 2007**

Details of total employee benefits as at balance sheet date are provided in the following table.

	<b>31 December 2007</b>	31 December 2006
	<b>\$'000</b>	\$'000
Liability for incentive performance payments	<b>165</b>	143
Liability for long service leave	<b>156</b>	102
Liability for annual leave	<b>185</b>	129
Total employee benefits	<b>506</b>	374

**(ii) Share-based payments**

During the six months ended 31 December 2007, grants of options have been made under the ESOP as disclosed in Note 8(iii). The fair values of services received in return for share options granted to employees are measured by reference to the fair value of the options granted. The estimate of fair value of the services received is measured based on a binomial model. The contractual five year life of the option is used as an input to this model and a zero dividend rate has been assumed for each valuation.

The expected volatility is based on the historic volatility from the March 2007 announcement of the Phase IIb ATC 21 day clinical trial results through to the issue date. There are no market or non-market performance conditions associated with the options. A summary of options issued during the period is provided in the following table.

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	Number vested during period
210,000 to staff	1/7/07	30 June 2012	\$0.2729	\$0.63	\$0.635	6.39%	37.48%	-

During the six months ended 31 December 2007 the Company recognised an expense of \$274,818 (2006: \$109,000) related to the fair value of options issued by the Company in the current and prior periods.

AVEXA LIMITED ABN 53 108 150 750

**Directors' declaration**

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

- (a) the financial statements and notes set out on pages 6 to 14, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 31 December 2007 and of its performance for the six months ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 20th day of February 2008.

Signed in accordance with a resolution of the directors.

Dr H Niall  
(Chairman)

AVEXA LIMITED ABN 53 108 150 750

**Independent auditor's review report to the members of Avexa Limited****Report on the financial report**

We have reviewed the accompanying interim financial report of Avexa Limited (the Company), which comprises the interim balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the half year ended on that date, a description of accounting policies and other selected explanatory notes (1 to 14) and the directors' declaration of the Company.

**Directors' Responsibility for the Financial Report**

The directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Avexa Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Avexa Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2007 and of its performance for the half year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

B W Szentirmay  
Partner

Melbourne

20 February, 2008