



H E X I M A

The Manager
Company Announcements Office
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28 September 2007

**Annual Financial Report
For the Year Ended 30 June 2007**

Dear Sir / Madam,

Please find attached the Annual Financial Report for the year ended 30 June 2007.

Yours sincerely

GF Dan O'Brien
Managing Director
Hexima Limited

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For personal use only

**HEXIMA LIMITED
ABN 64 079 319 314**

Annual Financial Report

FOR THE YEAR

ENDED 30 JUNE 2007

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DIRECTORS' REPORT

The Directors present their report together with the financial report of Hexima Limited ("the Company") for the financial year ended 30 June 2007 and the auditor's report thereon.

DIRECTORS

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

Steven M Skala BA, LL.B (HONS) (UNIVERSITY OF QLD), BCL (OXFORD UNIVERSITY)
Non-Executive Chairman

Steven Skala is Vice Chairman, Australia and New Zealand of Deutsche Bank AG. He is a former commercial lawyer with more than 20 years experience in commercial law. Between 1982 and 1985, he was a partner of law firm Morris Fletcher and Cross (now Minter Ellison). Between 1985 and 2004 he was a partner of law firm, Arnold Bloch Leibler, and was Head of its Corporate and Commercial Practice for several years.

Mr Skala is the Chairman of Film Australia Limited and Media and Gaming Pty Limited, a Director of the Australian Broadcasting Corporation, Deutsche Australia Limited, Max Capital Group Ltd, Wilson HTM Investment Group Limited, The Australian Ballet and The Centre for Independent Studies. He is also the Vice President of The Walter and Eliza Hall Institute for Medical Research.

Mr Skala is aged 51. He has been a Director of the Company since 17 May 2002 and is also a member of the Audit and Remuneration Committees.

Professor Adrienne E Clarke AC FAA, FTSE, BSC (HONS), PHD (THE UNIVERSITY OF MELBOURNE)
Deputy Chairman

Professor Adrienne Clarke is a founding member of Hexima, and became the Chief Technology Officer in April 2006. Professor Clarke is Laureate Professor at The University of Melbourne. She was appointed to a Personal Chair at the School of Botany (awarded in 1982) and is past Director of the Plant Cell Biology Research Centre, The University of Melbourne (1982-1999), former Chairman of CSIRO (1991-96), former Lieutenant Governor of Victoria (1997-2000) and former Ambassador for Biotechnology for Victoria (2001-2003). She was made an Officer of the Order of Australia in 1991 and a Companion of the Order of Australia in 2004.

Professor Clarke was President of the International Society for Plant Molecular Biology (1997-98). She is a Foreign Member, American Academy of Arts and Science; Foreign Associate, National Academy of Sciences, USA; Companion, The Institute of Engineers, Australia; Fellow, Australian Academy of Science; and Fellow, Australian Academy of Technological Sciences and Engineering.

Professor Clarke is a Director of Woolworths Ltd and Fisher & Paykel Healthcare Ltd.

Professor Clarke is aged 69. She has been a Director of the Company since 15 November 2001 and is a member of the Remuneration Committee.

G F Dan O'Brien BSC, BVMS (MURDOCH UNIVERSITY), MBA (HARVARD UNIVERSITY)
Managing Director

Dan O'Brien became Managing Director and Chief Executive Officer of Hexima in October 2005. Mr O'Brien has extensive agribusiness experience including farming investments and executive and non-executive roles with King Island Dairy Limited, Tasman Agriculture Limited, Colly Farms Cotton Limited, SPC Ardmona Limited and Select Harvests Limited. His previous roles include Chief Executive Officer positions with BIL Australia, Mattel Asia Pacific and The King Island Company Limited.

Mr O'Brien is a Director of Coates Hire Limited, Select Harvests Limited and Thomas and Coffey Limited.

Mr O'Brien is aged 51. He has been secretary since 9 May 2002 and a Director of the Company since 17 May 2002.

DIRECTORS' REPORT

Hugh M Morgan AC LLB, BCOMM (THE UNIVERSITY OF MELBOURNE)
Non-Executive Director

Hugh Morgan is Principal of First Charnock Pty Ltd, a Director of the Board of the Reserve Bank of Australia until 4 July 2007 and a member of the Lafarge International Advisory Board. He is also a Trustee of The Asia Society New York, President of the National Gallery of Victoria Foundation and Chairman of the Order of Australia Association Foundation.

From 2003-2005, Mr Morgan was President of the Business Council of Australia. He is also immediate Past President of the Australia Japan Business Co-operation Committee and immediate Past Co-Chair of the Commonwealth Business Council, and continuing Director.

Mr Morgan was Chief Executive Officer of WMC Limited from 1986 to 2003. He was a Director of Alcoa of Australia from 1977 to 1998 and a Director of Alcoa Inc from 1998 to 2001.

Mr Morgan is aged 67. He has been a Director of the Company since 10 May 2007. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

Professor Jonathan West BA (UNIVERSITY OF SYDNEY), PHD (HARVARD UNIVERSITY)
Non-Executive Director

Professor Jonathan West is the Director of the Australian Innovation Research Centre. Prior to assuming his current appointment, he taught for 18 years at the Harvard University Graduate School of Business Administration, where he was Associate Professor, founding Director of the Harvard University Life Sciences Initiative, and from 1998-1999 the Novartis Faculty Research Fellow. He has been Visiting Professor at Hitotsubashi University and the Nomura School of Advanced Management in Tokyo, Japan and Visiting Professor at the University de Paris IX-Dauphine, Sorbonne.

Professor West is also Chairman of the Asia Advisory Council of Bunge Ltd, one of the world's largest agribusiness processing and trading companies, and has served as an advisor to other major corporations and several Governments around the world, including in the life sciences field, DuPont, Roche, Novartis, Syngenta and the J.R. Simplot Company, along with the Governments of Singapore, Japan, Hong Kong and France. He was a member of the Scientific Advisory Board of the Novartis Agricultural Discovery Institute in La Jolla, California. In Australia, he has served on the Prime Minister's Science, Engineering, Innovation Council's Working Group on Science and Technology in China and India and in 2006 was 'Eminent Thinker in Residence' with the Premier of NSW.

Professor West is aged 50. He has been a Director of the Company since 7 November 2005. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

RETIRED DIRECTORS

Professor Marilyn A Anderson BSC (HONS) (THE UNIVERSITY OF MELBOURNE), PHD (LA TROBE UNIVERSITY)
Leader, Discovery and Insect Nutrition

Professor Marilyn Anderson is a founding scientist of Hexima and is a faculty member in the Department of Biochemistry at La Trobe University. She is a Member and Reader of the Biological Sciences Panel of the Australian Research Council, Chair of the Genetic Manipulation Advisory Committee La Trobe University and is a board member and Chair of the Environmental Occupational Health & Safety Committee, South East Water Ltd.

Professor Anderson is aged 56. She resigned from the position as a Director of Hexima on 14 June 2007.

DIRECTORS' REPORT

Dr Robyn L Heath BSC (HONS) (MONASH UNIVERSITY), PHD (THE UNIVERSITY OF MELBOURNE)
Leader, Crop Improvement Technology

Dr Robyn Heath is a founding scientist of Hexima and is Senior Research Fellow in the School of Botany at The University of Melbourne and Hexima's Program Leader, Cotton Biotechnology. Dr Heath has extensive research and management experience in both Government and university laboratories.

Dr Heath is aged 47. She resigned from the position as a Director of Hexima on 14 June 2007.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) held in the period in which each Director held office during the financial year and the number of meetings attended by each Director are:

	BOARD MEETINGS		AUDIT COMMITTEE	
	HELD ⁽¹⁾	ATTENDED	HELD	ATTENDED
Steven M Skala	7	7	3	2
Adrienne E Clarke	7	7	-	-
GF Dan O'Brien	7	7	-	-
Hugh M Morgan	2	2	1	1
Jonathon West ⁽²⁾	7	6	-	-
Marilyn A Anderson	7	5	-	-
Robyn L Heath	7	6	-	-

⁽¹⁾ Number of meetings held during the time the director held office during the year.

⁽²⁾ Professor West was appointed to the Audit Committee subsequent to year end.

The Nomination Committee, comprising the entire Board of the Company, was first established subsequent to year end and the Remuneration Committee was first convened subsequent to year end.

CORPORATE GOVERNANCE STATEMENT

The ASX Corporate Governance Council has released its principles of good corporate governance and best practice recommendations.

Listed entities are required to disclose in their annual reports the extent of their compliance with those best practice recommendations and, in the event of non-compliance, the reasons for that non-compliance.

The principles and recommendations encompass matters such as Board composition, committees and compliance procedures. They are designed to maximise corporate performance and accountability in the interests of investors and the broader economy.

A summary of the corporate governance regime that applies to Hexima is set out below.

DIRECTORS' REPORT

The Board of Directors

The Board is responsible for the direction and supervision of Hexima's business on behalf of the Shareholders, by whom they are elected and to whom they are accountable.

The Board's responsibilities include:

- protecting and enhancing the value of Hexima's assets;
- setting strategies and directions, then monitoring and reviewing progress against these strategic objectives;
- reviewing and ratifying internal controls, codes of conduct and legal compliance;
- ensuring the significant risks facing Hexima have been identified and adequate control monitoring and reporting mechanisms are in place; and
- approving transactions relating to acquisitions, divestments and capital expenditure above delegated authority limits.

The Board has adopted a Board Charter, which sets out values and business behaviours necessary to maintain confidence in Hexima's integrity. It includes a trading policy governing trading in securities by Directors, officers and employees and details the respective roles and responsibilities of the Board and management.

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Directors and Executives will participate in a formal induction program. They will have access to continuing education to update and enhance their skills and knowledge. A review of the performance of the Board will be undertaken annually by the Chairman, in consultation with the Board.

Composition of the Board

The Constitution of the Company provides that the number of Directors shall not be less than three. There are currently five Directors in office at the date of this report and their names and qualifications are set out on pages 3 to 5 of this Directors' Report.

The ASX best practice recommendations require a majority of the Board to be independent Directors and the chairperson to be an independent director. Currently, the Board has one director who satisfies the ASX guidelines for independence (being Jonathan West). Steven Skala and Hugh Morgan are Non-Executive Directors but do not qualify as independent because of their holding of shares in Hexima. The Board considers their significant commitment as Shareholders (which aligns their interest with that of other Shareholders) and broad experience as Directors of other companies provide advantages to the Board which outweigh any disadvantage in them not satisfying the ASX guidelines for independence. The Board will review this position at least annually.

Board Committees

To assist in the execution of its responsibilities, the Board has established a number of board committees including a Nomination Committee, a Remuneration Committee and an Audit Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis.

The full Board has 12 meetings scheduled for the coming year. Extraordinary meetings will be convened at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman and Managing Director/Company Secretary. Submissions are circulated in advance. Executives are regularly involved in Board discussions.

DIRECTORS' REPORT

Nomination Committee

The Board has in place a Nomination Committee to assist it in ensuring the Board has an effective composition, size and commitment.

The Nomination Committee develops criteria for Board membership, identifies specific individuals for nomination as Directors and establishes processes for the review of the performance of individual Directors and the Board as a whole.

Each of the Directors is currently on the Nomination Committee. The Nomination Committee meets at least twice a year to facilitate a Board performance assessment. In addition, the Nomination Committee meets as early as practicable prior to the expiration of the term of office of a Director to consider suitably skilled and experienced individuals for nomination as Directors.

Remuneration Committee

The Board will review and reward the performance of the senior management team. In doing so, they will consider recommendations from the Remuneration Committee.

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to Key Executives and Directors.

The Remuneration Committee will consist of at least three Directors, a majority of whom are Non-Executive Directors and at least one of whom is an independent director. The current members are Professor Jonathan West (Chairman), Professor Adrienne Clarke, Mr Steven Skala and Mr Hugh Morgan.

The Remuneration Committee meets at least twice a year in order to review and make recommendations to the Board. The Remuneration Committee may invite any executive management team members or other individuals to attend meetings of the Remuneration Committee as it considers appropriate. The Remuneration Report is set out on pages 12 to 13 and forms part of the Directors' Report for the financial year ended 30 June 2007.

Audit Committee

The Board has in place an Audit Committee to assist it in verifying and safeguarding the integrity of Hexima's financial reporting.

The Audit Committee reviews the financial information which is provided to Shareholders and others, the systems of internal controls which management and the Board have established and the audit process.

In particular, the Audit Committee undertakes certain specific duties as prescribed by the Board Charter and Audit Committee Charter.

The Audit Committee also reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial report, and recommend board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

Audit Committee meetings are to be held periodically throughout the year. It is the policy of the Board that the members of the Audit Committee should be Non-Executive Directors, at least one of

DIRECTORS' REPORT

whom should also be independent. This differs from the ASX best practice recommendations which require a majority of independent Directors and an independent Chairperson. Given the current composition of the Board, it is not possible for Hexima to satisfy the ASX requirements as to independence. The current Audit Committee comprises Mr Hugh Morgan as Chairman, Mr Steven Skala and Professor Jonathan West.

The Managing Director, Chief Financial Officer and external auditors will generally attend all Audit Committee meetings.

Communication with shareholders

Hexima's policy is to provide timely, open and accurate information to all stakeholders, including shareholders, regulators and the wider investment community. The Board Charter includes a continuous disclosure protocol to ensure compliance with the Listing Rules disclosure requirements.

In summary, the Company's continuous disclosure protocol operates as follows:

- the Managing Director/Company Secretary and the Chief Financial Officer are responsible for interpreting the company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX;
- The full Annual Financial Report is available on the Company's website and is sent to all shareholders who request it;
- the half-yearly report contains summarised financial information and a review of the operations of the Company during the period. The half-year financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to all shareholders who request it;
- proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders; and
- all media releases and information provided to analysts or the media during briefings are released to the ASX.

Hexima's communications strategy is set out in the Board Charter and is designed to promote effective communication with Shareholders and encourage effective participation at general meetings.

Risk Management

The Company strives to ensure that its practices are of the highest standard. The use of ag-biotech technology is regulated in the majority of countries in which Hexima will seek to commercialise its technology. The regulatory framework, which varies from country to country, is generally based on an assessment of the risk associated with the technology.

INDEPENDENT ADVICE

Each Director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of the advice received by the Director will be made available to all members of the Board.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activity of the Company during the financial year was the research, development and commercialisation of technology for the genetic modification of crops, primarily to enhance their resistance to insects and fungal pathogens.

OPERATING AND FINANCIAL REVIEW

	2007	2006
	\$000	\$000
Revenue	543	202
Net profit/(loss) before financing income/expense	(2,924)	(1,712)
Net financing (costs)/income	(8,443)	23
Income tax benefit	-	325
Net loss after tax attributable to members	(11,367)	(1,364)
Dividends	NIL	NIL
Basic earnings per share (cents)	(38.6)	(5.4)

Hexima recorded a net loss after tax of \$11.367 million for the year ended 30 June 2007, compared with a loss after tax of \$1.364 million for the previous corresponding period.

For an explanation of Hexima's position subsequent to the Initial Public Offering please refer to the commentary included under Events Subsequent to Balance Date.

Excluding net finance expense, the net loss after tax for the year ended 30 June 2007 was \$2.924 million. Net finance expense for the year was \$8.443 million. This was largely attributable to a non-cash accounting entry required to be made in accordance with AIFRS to reflect the net fair value adjustment on a converting note derivative.

Other than the recognition of this finance expense, the increase in the net loss for the period reflects the Company no longer being eligible for the R&D tax concession available to small companies and the expansion of the Company's activities in advancing the commercialisation of its technologies. There has been a significant increase in the expenses incurred in funding research and development and field trials, as well as the expenses of establishing the administrative capacity for a listed company and the expenses associated with raising capital. These have been only partially offset by an increase in income from collaborations and government grants.

Outlook

Hexima is focussed on commercialising its most advanced technologies and progressing its pipeline of technologies under development. The following are key to Hexima's success in these objectives:

- Hexima is targeting a large and growing market;
- Hexima's technologies address significant unmet market needs;
- Hexima is already working closely with some of the global agribusiness groups to develop its technology;
- Hexima has the opportunity to earn significant royalties and revenues from its technologies; and
- Hexima has the funding necessary to execute its strategy of seeking to enter into definitive commercialisation agreements with one or more of the global agribusiness groups.

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of Directors the following significant changes in the state of affairs of the Company occurred during the financial year under review:

The Company completed a rights issue and capital raising on 31 December 2006 to fund the operations of the Company prior to the major fund raising completed in August 2007. As a result of the 31 December 2006 rights issue, 7,595,601 shares at an issue price of \$0.035 per share were issued.

Hexima has entered into a Research and Development Agreement with Balmoral Australia Pty Ltd (ACN 095 987 367) ("Balmoral"). Under the agreement, Balmoral has paid Hexima \$1,800,000 to conduct research and development on its behalf relating to the potential pharmaceutical applications of Hexima's PI and defensin technologies in the treatment and prevention of cancer in humans. The research will be conducted by Hexima over the next two to three years. While Balmoral will acquire IP rights in relation to any results generated from the research and development, it has agreed to licence that IP to Hexima. Hexima is required to pay Balmoral a royalty reflecting the relative contributions that the existing Hexima technology and any IP generated by the project have to the successful commercialisation of the project results. The royalty will not exceed 10% of the net revenue generated.

In addition, Hexima has agreed to grant to Balmoral 800,000 options, each to acquire one fully paid ordinary share in Hexima at an exercise price of \$2.00 per option, exercisable prior to 30 June 2010. Hexima has also granted to Balmoral 1.6 million options, each to acquire one fully paid ordinary share in Hexima at an exercise price of \$2.00 per option, exercisable at any time prior to 30 June 2012. Balmoral has paid \$200,000 as consideration for the grant of the options.

DIRECTORS' REPORT

EVENTS SUBSEQUENT TO REPORTING DATE

Initial Public Offering

To raise \$40,000,000 prior to expenses, the Company issued a Prospectus ("the Prospectus") for the offer of 32,000,000 shares at \$1.25 per share on 6 July 2007. The offer was fully subscribed and trading of the shares on the Australian Stock Exchange (ASX) commenced on 27 August 2007. The expired Prospectus can be viewed at www.hexima.com.au.

Conversion of Converting Notes

The Company had 2,827,897 Converting Notes on issue as at 30 June 2007, classified as a liability in the Company's balance sheet. As the Company listed on the Australian Stock Exchange on 27 August 2007 at a value of \$1.25 per share, a Liquidity Event as defined in the Converting Note Commitment Agreement occurred. At this time the Converting Notes converted to 9,049,270 fully paid ordinary shares.

Issued Capital Post-IPO

	Number of Shares	Amount Paid \$
On issue at 1 July 2007	33,224,006	2,361,456
Issued on conversion of converting notes 27 August 2007	9,049,270	11,311,597
Issued for cash – IPO 27 August 2007	32,000,000	40,000,000
On issue at 27 August 2007	<u>74,273,276</u>	<u>53,673,053</u>
Less: transaction costs	n/a	(1,890,000)
Total	<u>74,273,276</u>	<u>51,783,053</u>

Changes in Key Management Personnel

As foreshadowed in the Prospectus dated 6 July 2007 the Company has appointed a Chief Operating Officer and a Chief Financial Officer.

Where appropriate, in addition to receiving a salary, an executive may receive an entitlement to participate in employee share plans. Hexima has recently entered into an agreement with Adam Hall pursuant to which he has been appointed as Chief Operating Officer effective from 1 July 2007. Hexima is to formalise its arrangements with the other members of its management team. No such agreement will be entered into without the recommendation of the Board's Remuneration Committee.

Other than the matters discussed above, 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 or 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.

DIVIDENDS

The Company has not paid or declared any dividends during or since the end of the financial year ended 30 June 2007.

LIKELY DEVELOPMENTS

Further disclosure of information regarding 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, in the opinion of the Directors, disclosure of the information may prejudice the interests of the Company.

DIRECTORS' REPORT

REMUNERATION REPORT

Principles of Remuneration – Audited

Key management personnel (including Directors of the Company and other executives) have authority and responsibility for planning and controlling the activities of the Company. For the financial year ending 30 June 2007, key management personnel comprise Mr Dan O'Brien, Professor Adrienne Clarke, Professor Marilyn Anderson and Dr Robyn Heath. Remuneration levels for key management personnel are set to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee obtains independent advice on remuneration packages and reviews remuneration on at least an annual basis.

Remuneration structures take into account the capability and experience of key management personnel. Remuneration includes a mix of fixed and variable remuneration as well as short and long term incentives.

Fixed Remuneration

Fixed remuneration consists of base remuneration, calculated on a total cost basis, as well as employer contributions to superannuation funds.

Performance Linked Remuneration

Performance linked remuneration includes both short and long term incentives. The short term incentive is an at risk bonus in the form of cash, based on the satisfaction of specified performance criteria, whilst the long term incentive may be provided as options over the Company's ordinary shares and other securities.

The Remuneration Committee considers that the above performance-linked compensation structure is generating the desired outcome. Incentives for the financial year ended 30 June 2007 related largely to the completion of a successful capital raising to fund the Company's activities as it seeks to commercialise its technologies. A successful capital raising was completed in August 2007 and, consequently, the Company has the financial capacity to continue to develop its technologies and to further their commercialisation.

Service Contracts

Mr O'Brien and Professor Clarke have employment contracts with the Company. Employment agreements may be terminated immediately for cause or are otherwise terminable by three month's notice by either party. Professor Anderson and Dr Heath are employees of The University of Melbourne and La Trobe University.

Non-Executive Directors – Audited

The Constitution provides that Non-Executive Directors may be paid or provided fees or other remuneration for their services as a Director of Hexima (including as a member of any Directors' committee). The total amount or value of this remuneration must not exceed \$500,000 (including mandatory superannuation) per annum or such other maximum amount determined by the Company in a general meeting.

A Non-Executive Director may be paid remuneration as the Directors determine where the Director performs services outside the scope of ordinary duties of the Director. Non-Executive Directors may also be paid expenses properly incurred in attending meetings or otherwise in connection with the Company's business.

Prior to 1 April 2007, no remuneration was paid to the Non-Executive Directors save for the options issued to Directors. From 1 April 2007, fees payable to Non-Executive Directors are set at \$55,000 per annum for Non-Executive Directors and \$110,000 per annum for the Chairman.

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 (including key management personnel) receiving the highest remuneration are included in the table following.

HEXIMA LIMITED
ABN 64 079 319 314

DIRECTORS' REPORT

Directors' and Executive Officers' Remuneration – Audited

Details of the nature and amount of each major element of remuneration of each Director of the Company and each executive and key management personnel are:

		Short term employee benefits		Share based payments		Post Employment Benefits	Total	Proportion of remuneration performance related	Value of Options as proportion of Remuneration
		Fixed Remuneration (Salary & Fees)	Short Term Incentive	Share Options Issued	Convert-ing Notes Issued	Super-annuation			
Non-executive									
Steven M Skala	2007	25,230	-	-	-	2,270	27,500	-	-
(1)	2006	-	-	6,000	-	-	6,000	-	100%
Jonathan West	2007	12,615	-	-	-	1,135	13,750	-	-
(1)	2006	-	-	3,000	-	-	3,000	-	100%
Hugh M Morgan	2007	7,009	-	-	-	630	7,639	-	-
	2006	-	-	-	-	-	-	-	-
Executive									
Adrienne E Clarke	2007	-	121,680	-	-	119,950	241,630	50%	-
(1) (2) (3)	2006	-	-	3,000	-	-	3,000	-	100%
GF Dan O'Brien	2007	95,343	110,080	-	250,000	5,527	460,950	79%	-
(2) (4)	2006	150,848	-	-	-	5,152	156,000	-	-
Marilyn A Anderson	2007	-	12,615	-	-	1,135	13,750	-	-
	2006	-	-	-	-	-	-	-	-
Robyn L Heath	2007	-	12,615	-	-	1,135	13,750	-	-
	2006	-	-	-	-	-	-	-	-
Total	2007	140,197	256,990	-	250,000	131,782	778,969	65%	-
Total	2006	150,848	-	12,000	-	5,152	168,000	-	8%

- (1) No options were granted to Directors or Executive Officers during the year ended 30 June 2007. The total expense of share options granted in the financial year ended 30 June 2006 was \$12,000 and was included in employee benefits expense in the income statement. The fair value of the share options at grant date is determined based on the Black-Scholes formula. The terms and conditions of these options are detailed in Note 22 to the financial statements.
- (2) Professor Clarke and Mr O'Brien are employed directly by the Company on a part-time basis.
- (3) Professor Clarke was appointed Chief Technology Officer of the Company during the financial year ended 30 June 2007. She was previously employed by The University of Melbourne.
- (4) Converting notes to the value of \$250,000 were issued as compensation to a related entity of Mr O'Brien on 19 December 2006. These notes were subsequently fair valued as at 30 June 2007 to \$1,000,000 in accordance with Note 13, with the \$750,000 fair value adjustment included in Note 6 as "net fair value adjustment on converting note."

HEXIMA LIMITED
ABN 64 079 319 314

DIRECTORS' REPORT

DIRECTORS' INTERESTS

Set out below are details of the interests of the Directors in office at 30 June 2007 in the shares of the Company and rights or options over such instruments, prior to the issue of shares under the Initial Public Offering and on completion of the Offer. Interests include those held directly and indirectly.

Director	Existing shares at 30 June 2007	Shares from Converting Notes*	Shares issued under Offer	Total shares post Offer	% issued shares post Offer	Options over shares
Steven M Skala	2,892,730	960,000	160,000	4,012,730	5.4%	1,057,768
Adrienne E Clarke	4,525,026	732,893	160,000	5,417,919	7.3%	1,096,971
GF Dan O'Brien	2,924,768	1,760,000	160,000	4,844,768	6.5%	1,231,456
Jonathan West	491,702	960,000	160,000	1,611,702	2.2%	300,000
Hugh M Morgan	4,354,503	1,600,000	500,000	6,454,503	8.7%	303,031
Marilyn A Anderson	2,381,935	-	-	2,381,935	3.2%	500,000
Robyn L Heath	2,381,935	-	-	2,381,935	3.2%	500,000
Total	19,952,599	6,012,893	1,140,000	27,105,492	36.5%	4,989,226

* On completion of the Offer, existing converting notes converted to shares in the Company.

SHARE OPTIONS

The Company did not issue any options to Directors or key management personnel during or since the end of the financial year ended 30 June 2007.

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
31 December 2009	\$0.50	5,272,733
31 December 2009	\$0.31	928,425
31 December 2009	\$0.16	154,737
30 June 2010	\$2.00	800,000
30 June 2012	\$2.00	1,600,000
		8,755,895

No options have been exercised by Directors or key management personnel either during or after the end of the financial year ending 30 June 2007. La Trobe University exercised 550,000 options at a total exercise price of \$1.00 during the year ended 30 June 2007.

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DIRECTORS' REPORT

AUDITORS

Non-Audit Services

During the year KPMG, the Company's auditor, has performed certain services in addition to their statutory duties. KPMG was engaged to prepare an Investigating Accountant's Report for inclusion in the Prospectus dated 6 July 2007, in respect to the capital raising completed since year end.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided by the auditor do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amount paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

Audit Services	2007	2006
	\$	\$
Audit and review of financial reports	40,323	17,350
Services other than statutory audit		
Preparation of Investigating Accountant's Report	65,000	-
	<u>105,323</u>	<u>17,350</u>

INDEMNIFICATION OF OFFICERS

No indemnities were given or insurance premiums paid during the financial year for any person who was an officer or auditor of the Company. Since the end of the financial year the Company has paid insurance premiums of \$100,100 (including taxes) in respect of Directors' and Officers' liability and legal expenses insurance contracts, for current and former Directors and Officers of the Company. The insurance premiums relate to:

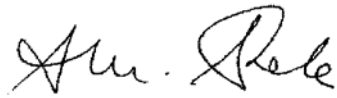
- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain personal advantage.

DIRECTORS' REPORT

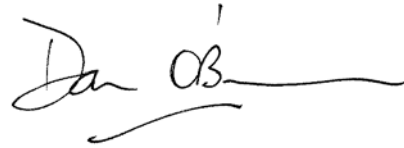
**LEAD AUDITORS' INDEPENDENCE DECLARATION UNDER SECTION 370C OF THE
CORPORATIONS ACT 2001**

The Lead Auditor's Independence Declaration is set out on page 17 and forms part of the Directors' Report for the ended 30 June 2007.

This report is made pursuant to a resolution of the Directors.



.....
Mr SM Skala
Director



.....
Mr GF O'Brien
Director

Dated this 28th day of September

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**Lead auditor's independence declaration under Section 307C of the Corporations Act
2001**

To: the directors of Hexima Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

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

KPMG

KPMG

Ralph M Ferguson
Partner

Melbourne

28 September 2007

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HEXIMA LIMITED
ABN 64 079 319 314

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007	2006
		\$	\$
Revenue		542,740	202,428
Contracted research expenditure - general		(1,164,596)	(822,324)
Contracted research expenditure - university sponsorship		(60,000)	(20,000)
Contracted university research administration support expenditure		(434,195)	(259,467)
Patent and legal expense		(277,240)	(304,377)
Field trial expense		(161,172)	(91,830)
Marketing & research expense		(53,979)	(151,963)
Employee benefits expense	22	(778,969)	(168,000)
Depreciation expense		(8,321)	(6,530)
Other expense	5	(528,210)	(90,021)
		<u>(3,466,682)</u>	<u>(1,914,512)</u>
Results from operating activities		(2,923,942)	(1,712,084)
Financial income	6	40,612	23,591
Financial expense	6	(8,483,700)	-
Net financing (costs)/income		(8,443,088)	23,591
Loss before income tax		(11,367,030)	(1,688,493)
Income tax benefit	7a	-	324,655
Loss for the period		(11,367,030)	(1,363,838)
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	20	(0.386)	(0.054)
Diluted earnings per share	20	(0.386)	(0.054)

The accompanying notes form part of these financial statements

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HEXIMA LIMITED
ABN 64 079 319 314

BALANCE SHEET
AS AT 30 JUNE 2007

		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	8	2,833,360	992,054
Receivables	9	134,221	941,796
Current tax asset	7	-	324,655
TOTAL CURRENT ASSETS		2,967,581	2,258,505
NON-CURRENT ASSETS			
Investments	10	2	2
Property, plant and equipment	11	82,410	19,502
TOTAL NON-CURRENT ASSETS		82,412	19,504
TOTAL ASSETS		3,049,993	2,278,009
CURRENT LIABILITIES			
Trade and other payables	12	1,871,107	731,640
Loans and borrowings	13	11,479,013	167,416
Deferred income	14	600,000	-
TOTAL CURRENT LIABILITIES		13,950,120	899,056
NON-CURRENT LIABILITIES			
Loans and borrowings	13	-	2,577,897
Deferred Income	14	1,200,000	-
TOTAL NON-CURRENT LIABILITIES		1,200,000	2,577,897
TOTAL LIABILITIES		15,150,120	3,476,953
NET (DEFICIENCY)/ASSETS		(12,100,127)	(1,198,944)
EQUITY			
Issued capital	15	2,361,456	2,095,609
Reserves	15	212,000	12,000
Accumulated losses		(14,673,583)	(3,306,553)
TOTAL (DEFICIENCY)/EQUITY		(12,100,127)	(1,198,944)

The accompanying notes form part of these financial statements

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HEXIMA LIMITED
ABN 64 079 319 314

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Ordinary Shares \$	Equity option reserve \$	Equity compen- sation reserve \$	Accumulated Losses \$	Total equity \$
2007						
Opening balance at 1 July 2006		2,095,609	-	12,000	(3,306,553)	(1,198,944)
Issue of Share Options	15	-	200,000	-	-	200,000
Total non-profit items recognised directly in equity			200,000			200,000
Net profit/(loss) for the period		-	-	-	(11,367,030)	(11,367,030)
Total recognised income and expense for the period		-	200,000	-	(11,367,030)	(11,167,030)
Issue of ordinary shares	15	265,847	-	-	-	265,847
Closing balance at 30 June 2007		2,361,456	200,000	12,000	(14,673,583)	(12,100,127)
2006						
Opening balance at 1 July 2005		2,095,609	-	-	(1,942,715)	152,894
Issue of Share Options	15	-	-	12,000	-	12,000
Total non-profit items recognised directly in equity		-	-	12,000	-	12,000
Net profit/(loss) for the period		-	-	-	(1,363,838)	(1,363,838)
Total recognised income and expense for the period		-	-	12,000	(1,363,838)	(1,351,838)
Closing balance at 30 June 2006		2,095,609	-	12,000	(3,306,553)	(1,198,944)

The accompanying notes form part of these financial statements

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 \$	2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from government grants & collaboration agreements		2,291,016	202,428
Cash paid to suppliers and employees		(2,068,894)	(1,292,709)
Cash receipts from research & development tax concession		324,655	310,667
Net cash from / (used in) operating activities	16b	<u>546,777</u>	<u>(779,614)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	6	40,612	23,591
Payments for property, plant and equipment	11	(71,229)	-
Net cash from / (used in) investing activities		<u>(30,617)</u>	<u>23,591</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of converting notes		859,300	1,264,323
Proceeds from issue of share capital	15	265,846	-
Proceeds from issue of share options	15	200,000	-
Net cash from financing activities		<u>1,325,146</u>	<u>1,264,323</u>
Net increase in cash and cash equivalents		1,841,306	508,300
Cash and cash equivalents at 1 July		<u>992,054</u>	<u>483,754</u>
Cash and cash equivalents at 30 June	16a	<u>2,833,360</u>	<u>992,054</u>

The accompanying notes form part of these financial statements

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Notes to the financial statements for the year ended 30 June 2007

1. REPORTING ENTITY

Hexima Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 5, 114 William Street, Melbourne, Victoria, 3000. Hexima is an agribusiness company actively engaged in the research and development of technology for the protection and enhancement of commercial crops, primarily to enhance their resistance to insects and fungal pathogens.

The accounts of Hexima Limited, the Company, are also to be read as the consolidated entity as the Company financial statements do not differ materially to the consolidated entity.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The financial statements were approved by the Board of Directors on 28th September 2007.

(b) Basis of measurement

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments and cash-settled share based payment arrangements which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 13 – derivative financial instruments are measured at fair value.

Notes to the financial statements for the year ended 30 June 2007

(e) **Going concern**

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal trading operations and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Company incurred an operating loss after tax of \$11,367,030 for the year ended 30 June 2007 (2006: \$1,363,838) and had a net asset deficiency at balance date of \$12,100,127 (2006: \$1,198,944).

The Directors believe it is appropriate to prepare the financial statements on a going concern basis for the following reasons:

- subsequent to year end, the Company successfully completed its capital raising activities (Initial Public Offering), of which the \$40,000,000 of funds generated is in excess of the Company's forecast cashflow requirements for the period from 1 July 2007 to 30 June 2008; and
- as a result of the successful completion of the Initial Public Offering, all converting note instruments classified as debt at 30 June 2007 were converted to fully paid ordinary shares.

The Directors believe that the going concern basis of preparation is therefore appropriate and that the Company can pay its debts as and when they fall due.

3. **SIGNIFICANT ACCOUNTING POLICIES**

The entity has elected to early adopt the following accounting standards and amendments:

- AASB 101 *Presentation of Financial Statements* (October 2006).

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) **Financial Instruments**

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Notes to the financial statements for the year ended 30 June 2007

(a) Financial Instruments (continued)

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(g).

(i) Converting notes

Non-redeemable converting notes which convert to share capital and where the number of shares issued vary with changes in their fair value are accounted for as hybrid financial instruments, split between host contract debt and derivative debt. The derivative debt component embedded in hybrid convertible notes is calculated at its fair value at the time of recognition of the convertible notes and then fair valued on an on-going basis with changes recognised in the profit and loss account. Converting notes are recognised in the balance sheet upon issue. For partly paid converting notes, a receivable is recognised to the extent of the unpaid amount.

(ii) Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Derivative financial instruments

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(iv) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Other incremental costs not attributable to issue of ordinary shares are expensed as incurred.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(b) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy (e)). Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The Company recognises in the carrying amount of an item of plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Notes to the financial statements for the year ended 30 June 2007

(b) Plant and equipment (continued)

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The depreciation/amortisation rates used for each class of asset are as follows:

	2007	2006
Plant and equipment	15% - 37.5%	15% - 37.5%
Office equipment	33%	33%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(c) Foreign Currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

(d) Investment

Investment in controlled entity is measured at the lower of cost and recoverable amount. The carrying amount of the investment is reviewed annually by directors to ensure it is not in excess of the recoverable amount of the investment.

(e) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Notes to the financial statements for the year ended 30 June 2007

(e) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Calculation of recoverable amount

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(f) Revenue

Grant revenue

Government grant income that compensates the company for expenses incurred is recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred.

Operating revenues

Operating revenue represents revenue received from entities who fund and/or participate in the collaborative research initiatives of the Company. When services in respect of collaborative research activities are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight line basis over the period of the collaborative research agreement. Unrecognised revenue, representing payments received during the year for services to be provided in the future, is recognised as deferred income.

Notes to the financial statements for the year ended 30 June 2007

(g) Expenses

Research expenditure

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred. Patent costs relating to research activities are expensed as incurred.

Net finance costs

Interest income is recognised in the income statement as it accrues, using the effective interest method. Borrowing costs are expensed as incurred and included in net finance costs. Fair value adjustments on derivatives are also included in net finance costs.

(h) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(j) Segment Reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the financial statements for the year ended 30 June 2007

(j) Segment Reporting (continued)

The Company primarily operates in one sector, being the agricultural biotechnology industry, developing and/or commercialising agricultural biotechnology research. The majority of operations are in Australia.

(k) Employee benefits

Defined Contribution Superannuation Fund

The Company meets its statutory obligation to make superannuation contributions on behalf of employees to particular funds identified by employees themselves. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on costs, such as workers' compensation insurance and payroll tax.

Long Term Employee Benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated Commonwealth Government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(l) Share based payment transactions

Equity Settled

The grant date fair value of options granted to key management personnel is recognised as an employee expense, with a corresponding increase in equity over the period in which the key management personnel become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest except for those that fail to vest due to market conditions not being met.

Cash Settled

The fair value of the liability to the Managing Director in respect of converting notes is recognised as an expense, with a corresponding increase in the liability over the period in which the Managing Director became unconditionally entitled to the converting notes.

(m) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Notes to the financial statements for the year ended 30 June 2007

(n) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Derivatives

The fair value of separable embedded derivatives included in the converting note liability is based on the Company's initial listed market price on Initial Public Offering.

Share-based payment transactions

The fair value of employee stock options at grant date is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of converting note (cash-settled) share-based payment transactions at grant date is measured on the basis of the fair value of the converting note at that date. Measurement subsequent to balance date is based on available market evidence as to fair value, as noted above.

(o) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

AASB 7 *Financial Instruments: Disclosures (August 2005)*, AASB 2005-10 *Amendments to Australian Accounting Standards (September 2005)*, AASB 8 *Operating Segments*, AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*. AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007.

The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

Other new accounting standards and interpretations are not expected to have a significant impact on the Company.

4. SEGMENT REPORTING

The Company primarily operates in one sector, being the agricultural biotechnology industry developing and/or commercialising agricultural biotechnology research. The majority of operations are in Australia.

HEXIMA LIMITED
ABN 64 079 319 314

Notes to the financial statements for the year ended 30 June 2007

5. OTHER EXPENSE

	2007	2006
	\$	\$
Administration and accounting services	178,514	83,895
Capital raising expense	307,196	-
Other	42,500	6,126
	<u>528,210</u>	<u>90,021</u>

6. FINANCE INCOME AND EXPENSE

	2007	2006
	\$	\$
Interest income	40,612	23,591
Financial income	<u>40,612</u>	<u>23,591</u>
Net fair value adjustment on converting note	(8,483,700)	-
Financial expense	<u>(8,483,700)</u>	<u>-</u>
Net financing income/(expense)	<u>(8,443,088)</u>	<u>23,591</u>

7. INCOME TAX

7(a) Income tax expense

Recognised in the income statement

	2007	2006
	\$	\$
Current tax expense / (credit)		
Current year	-	-
Under/(over) provided in prior years	-	-
R & D tax concession	-	(324,655)
	<u>-</u>	<u>(324,655)</u>
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Benefit of tax losses of prior years recouped	-	-
Total income tax expense / (credit) in income statement	<u>-</u>	<u>(324,655)</u>

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Notes to the financial statements for the year ended 30 June 2007

7. INCOME TAX (continued)

Numerical reconciliation between tax expense and pre-tax net profit

	2007	2006
	\$	\$
Loss before tax	(11,367,030)	(1,688,493)
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	(3,410,109)	(506,548)
Increase/(decrease) in income tax expense due to:		
Other non-deductible expenses	148,999	82,644
R & D concessional increment	(91,845)	(56,951)
Share based payment	75,000	-
Net fair value adjustment on converting note derivative	2,545,110	-
Temporary differences not brought to account	532,149	3,340
Tax losses not brought to account	200,696	152,860
Under / (over) provided in prior years	-	-
Income tax expense/(benefit) on pre-tax net profit	<u>-</u>	<u>(324,655)</u>

7(b) Unrecognised deferred tax assets

	2007	2006
	\$	\$
Deferred tax assets have not been recognised in respect of the following items:		
Temporary differences	545,798	13,649
Tax losses	353,556	152,860
Total	<u>899,354</u>	<u>166,509</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company could utilise the benefits therefrom.

7(c) Current tax assets

The current tax asset for the Company of \$NIL (2006: \$324,655) represents the amount of research and development tax rebates due from the Australian Taxation Office.

HEXIMA LIMITED
ABN 64 079 319 314

Notes to the financial statements for the year ended 30 June 2007

8. CASH AND CASH EQUIVALENTS

Current	2007	2006
	\$	\$
Cash on hand	1,275	1,200
Cash at bank	2,751,320	777,561
Term deposit	80,765	213,293
	<u>2,833,360</u>	<u>992,054</u>

9. RECEIVABLES

Current	2007	2006
	\$	\$
Trade receivables	127,073	-
Receivables due from converting note holders	-	859,300
GST receivable	-	75,348
Prepayments	7,148	7,148
	<u>134,221</u>	<u>941,796</u>

10. INVESTMENTS

Non-current	2007	2006
	\$	\$
Shares in Pharmagra Pty Ltd (formerly Hexima BioTech Pty Ltd) at cost	<u>2</u>	<u>2</u>

Pharmagra Pty Ltd is incorporated in Australia and is a 100% owned subsidiary of the Company. Pharmagra Pty Ltd has total assets and net assets of \$2.00 at 30 June 2007.

11. PROPERTY, PLANT & EQUIPMENT

	2007	2006
	\$	\$
Research equipment – at cost	106,354	39,219
Less accumulated depreciation	(30,317)	(23,120)
	<u>76,037</u>	<u>16,099</u>
Office equipment – at cost	25,739	21,645
Less accumulated depreciation	(19,366)	(18,242)
	<u>6,373</u>	<u>3,403</u>
Total	<u>82,410</u>	<u>19,502</u>

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Notes to the financial statements for the year ended 30 June 2007

11. PROPERTY, PLANT & EQUIPMENT (continued)

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the financial period:

	Plant and Equipment	Office Equipment	Total
30 June 2006			
Brought forward at 1 July 2005	20,952	5,080	26,032
Additions	-	-	-
Depreciation expense	(4,853)	(1,677)	(6,530)
Carrying amount at 30 June 2006	<u>16,099</u>	<u>3,403</u>	<u>19,502</u>
30 June 2007			
Brought forward 1 July 2006	16,099	3,403	19,502
Additions	67,135	4,094	71,229
Depreciation expense	(7,197)	(1,124)	(8,321)
Carrying amount 30 June 2007	<u>76,037</u>	<u>6,373</u>	<u>82,410</u>

12. TRADE AND OTHER PAYABLES

Current	2007 \$	2006 \$
Trade payables	1,744,585	670,938
Other trade payables & accrued expenses	126,522	60,702
	<u>1,871,107</u>	<u>731,640</u>

Included in trade and other payables is an amount of \$356,323 (2006 : \$NIL) in respect of key management personnel remuneration accrued.

13. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's loans and borrowings.

	2007 \$	2006 \$
Current		
Loan from UMEE Ltd	167,416	167,416
Converting notes	11,311,597	-
	<u>11,479,013</u>	<u>167,416</u>
Non current		
Converting notes	-	2,577,897
	<u>-</u>	<u>2,577,897</u>

Loan from UMEE Ltd

UMEE Ltd (formerly Melbourne University Private Ltd), a wholly owned subsidiary of The University of Melbourne, advanced an interest free loan of \$167,416 to the Company on an unsecured basis. With the successful completion of the Initial Public Offering on 27 August 2007, the loan will be repaid during the 2007/08 financial year.

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Notes to the financial statements for the year ended 30 June 2007

13. LOANS AND BORROWINGS (continued)

Converting Notes	Note	2007 \$	2006 \$
Opening balance at 1 July *		2,577,897	1,854,640
Proceeds from issue of converting notes to shareholders		-	723,257
Net fair value adjustment on converting note derivative		8,483,700	-
Issued as cash-settled share based payment	22	250,000	-
Carrying amount of liability at 30 June		<u>11,311,597</u>	<u>2,577,897</u>
Number of instruments on issue		2,827,897	2,577,897

* In June 2005 shareholders were invited to subscribe, pro-rata to their existing shareholding in the company, for Converting Notes with a Face Value of \$3,000,000. Subsequent to the offer to shareholders, subscriptions were received for \$2,577,897. The Converting Notes were issued partly paid and all instalments were received at 31 December 2006. In December 2006 Converting Notes with a Face Value of \$250,000 were issued as compensation, taking the total number of Converting Note instruments on issue to 2,827,897.

These Converting Notes are non-redeemable and convert to ordinary shares at the earlier of the achievement of the Liquidity Event as defined in the Converting Note Commitment Agreement or 31 December 2009. The conversion price will be the greater of 25% of the value of the ordinary shares at the time of the Liquidity Event or 5c per share.

The Company completed a capital raising issuing shares via a Prospectus dated 6 July 2007 at \$1.25 per share. The offer closed on 10 August 2007 and the Company listed on the Australian Stock Exchange on 27 August 2007. The capital raising was a Liquidity Event as defined in the Converting Note Commitment Agreement. Upon successful completion of the issue, the 2,827,897 Converting Notes converted to 9,049,270 fully paid ordinary shares.

14. DEFERRED INCOME

Hexima has entered into a Research and Development Agreement with Balmoral Australia Pty Limited ("Balmoral"), whereby Balmoral has paid Hexima \$1,800,000 to conduct research on its behalf over the next three years. The contract has a term of three years. In accordance with the Company's accounting policy in respect of collaborative research agreements, the current portion of deferred income of \$600,000 as at 30 June 2007 represents the income to be earned on the agreement within the next twelve months.

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Notes to the financial statements for the year ended 30 June 2007

15. CAPITAL & RESERVES

Ordinary Shares	Number of Shares		Amount Paid	
	2007	2006	2007	2006
			\$	\$
On issue at 1 July	25,047,905	25,006,905	2,095,609	2,095,609
Issued at no cost	30,500	41,000	-	-
Issued for cash	7,595,601	-	265,847	-
Exercise of share options	550,000	-	-	-
On issue at 30 June – fully paid	33,224,006	25,047,905	2,361,456	2,095,609

Share options	2007	2006	2007	2006
			\$	\$
On issue at 1 July	6,905,895	5,705,895	12,000	-
Issued as compensation	-	1,200,000	-	12,000
Issued for consideration	2,400,000	-	200,000	-
Exercise of share options	(550,000)	-	-	-
On issue at 30 June – fully paid	8,755,895	6,905,895	212,000	12,000

Terms and conditions of share options

Expiry Date	Exercise Price	Number of Share Options
31 December 2009	\$0.50	5,272,733
31 December 2009	\$0.31	928,425
31 December 2009	\$0.16	154,737
30 June 2010	\$2.00	800,000
30 June 2012	\$2.00	1,600,000
		8,755,895

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes to the financial statements for the year ended 30 June 2007

15. CAPITAL & RESERVES (continued)

Equity Compensation Reserve

The equity compensation reserve represents the accumulated amount of share options vested to key management personnel under compensation schemes.

Equity Option Reserve

The equity option reserve comprises the accumulated amount of share options issued to other parties.

16. NOTES TO THE STATEMENT OF CASHFLOW

16a. RECONCILIATION OF CASH

Reconciliation of cash at the end of the period (as shown in the statement of cash flows) to the related items in the accounts is as follows:

	2007	2006
	\$	\$
Cash on hand and at bank	2,833,360	992,054

16b. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2007	2006
	\$	\$
Cash flows from operating activities		
Loss for the period	(11,367,030)	(1,363,838)
<i>Adjustments for:</i>		
Issue of converting note as share based payment	250,000	-
Fair value adjustment on converting note derivative	8,483,700	-
Interest received	(40,612)	(23,591)
Depreciation	8,321	6,530
Equity settled share based payment expense	-	12,000
Operating loss before changes in working capital	(2,665,621)	(1,368,899)
(Increase)/decrease in trade and other receivables	(51,725)	(28,236)
Increase/(decrease) in payables	1,139,468	632,321
(Increase)/decrease in deferred income	1,800,000	-
(Increase)/decrease in tax rebate receivable	324,655	(14,800)
Net cash from/(used in) operating activities	546,777	(779,614)

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Notes to the financial statements for the year ended 30 June 2007

17. AUDITORS' REMUNERATION

	2007	2006
	\$	\$
Audit services:		
Auditors of the Company		
<i>KPMG Australia:</i>		
- Audit of the financial report	40,323	17,350
Other services:		
Auditors of the Company		
<i>KPMG Australia:</i>		
- Preparation of Investigating Accountants' Report	65,000	-
	105,323	17,350

18. FINANCIAL INSTRUMENTS

Exposure to interest rate risks arises in the normal course of the Company's business.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	Note	Effective interest rate	2007	
			Total	6 months or less
			\$	\$
Cash at bank		5.30%	2,752,595	2,752,595
Term deposit		5.90%	80,765	80,765
	8		2,833,360	2,833,360
			2006	
			\$	\$
Cash at bank		5.10%	778,761	778,761
Term deposit		5.65%	213,293	213,293
	8		992,054	992,054

Cash at bank includes funds received at year end and subsequently invested in term deposits.

Estimation of fair values

The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs. The carrying value of financial assets and liabilities approximates the fair value at 30 June 2007.

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Notes to the financial statements for the year ended 30 June 2007

19. CONTINGENCIES

Guarantee and Indemnification

During the year the Company had an Institutional Biosafety Committee (IBC) to advise on certain aspects of the Company's field trial applications. The Company has agreed to indemnify, release and forever discharge the members of the IBC from and against any claim or liability, incurred by the members, arising in connection with the conduct of field trials and related applications being undertaken by the Company.

20. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2007 was based on a loss attributable to ordinary shareholders of \$11,367,030 (2006:\$1,363,838) and a weighted average number of ordinary shares of 29,451,679, calculated as follows:

Loss attributable to ordinary shareholders	2007	2006
	\$	\$
Loss for the period after income tax	11,367,030	1,363,838

Weighted average number of shares used as a denominator

Number for basic earnings per share

Ordinary shares	29,451,679	25,037,571
-----------------	------------	------------

Number for diluted earnings per share

Ordinary shares	29,451,679	25,037,571
-----------------	------------	------------

Instruments not included in diluted earnings per share due to anti-dilutionary effect

	Number of shares	Number of shares
	2007	2006
Converting notes	9,049,270	8,249,270
Share options	8,755,895	6,905,895
	17,805,165	15,155,165

21. MATERIAL ITEMS

	2007	2006
	\$	\$
Included in the pre-tax operating results are the following material items:		
Included in net finance (costs)/income:		
Fair value adjustment on converting note derivative	8,483,700	-

Notes to the financial statements for the year ended 30 June 2007

22. RELATED PARTIES

Directors

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were Directors for the entire period:

Executive Directors

Professor Adrienne E Clarke

Mr GF Dan O'Brien

Professor Marilyn A Anderson (resigned as Director 14 June 2007)

Dr Robyn L Heath (resigned as Director 14 June 2007)

Non-Executive Directors

Mr Steven M Skala

Professor Jonathan West

Mr Hugh M Morgan (appointed as Director 10 May 2007)

The key management personnel compensation included in 'employee benefits expense' is as follows:

	2007	2006
	\$	\$
Short term employee benefits	397,187	150,848
Post employment benefits	131,782	5,152
Share based payments	250,000	12,000
	<u>778,969</u>	<u>168,000</u>

Individual directors and executive compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' Report on pages 12 to 13.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Notes to the financial statements for the year ended 30 June 2007

22. RELATED PARTIES (continued)

Share Based Payments

The terms and conditions of grants for equity settled and cash settled share based payments are detailed below:

Grant Date/key management personnel entitled	No of instruments	Vesting conditions	Expiry Date	Exercise Price
Option grant to key management at 14 October 2003	1,083,162	Past services, immediate vesting	31/12/2009	\$0.50
Option grant to key management at 11 February 2005	1,500,000	Past services, immediate vesting	31/12/2009	\$0.50
Option grant to key management at 29 November 2005	1,200,000	Past services, immediate vesting	31/12/2009	\$0.50
Total share options	3,783,162			
Converting notes granted to CEO on 19 December 2006	250,000	Performance based criteria		

The total expense of share options granted in 2007 was \$NIL (2006: \$12,000), which is included in employee benefits expense in the income statement.

Additionally share options granted as share based payments before 7 November 2002 exist. The recognition criteria and measurement principles in AASB 2 have not been applied to these grants in accordance with the transitional provisions in AASB 1.

The fair value of the share options at grant date is determined based on Black-Scholes formula. The model inputs were the share price of \$0.30, the exercise price of \$0.50, the expected volatility of 25.0 per cent, expected dividends of \$NIL, and a risk-free interest rate of 6.0 per cent.

The total expense of converting notes granted in 2007 was \$250,000 (2006: \$NIL), which is included in employee benefits expense in the income statement. The fair value of the converting notes at grant date is determined based on the fair value of the converting note instrument at that date. The total carrying amount of liability for cash settled converting note share based payment is disclosed in Note 13 to the financial statements.

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Notes to the financial statements for the year ended 30 June 2007

22. RELATED PARTIES (continued)

Share Options

The movement during the prior reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2006	Held at 1 July 2005	Granted as compen- sation	Exercised	Held at 30 June 2006 and 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2006 and 30 June 2007
Non-executive						
Steven M Skala	457,768	600,000	-	1,057,768	-	1,057,768
Jonathan West	-	300,000	-	300,000	-	300,000
Hugh M Morgan	303,031	-	-	303,031	-	303,031
Executive						
Adrienne E Clarke	796,971	300,000	-	1,096,971	-	1,096,971
GF Dan O'Brien	1,231,456	-	-	1,231,456	-	1,231,456
Marilyn A Anderson	500,000	-	-	500,000	-	500,000
Robyn L Heath	500,000	-	-	500,000	-	500,000
	3,789,226	1,200,000	-	4,989,226		4,989,226

There were no share options granted or exercised during 2007 by key management personnel.

Movement in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows

2007	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Held at 30 June 2007
Non-executive					
Steven M Skala	1,909,093	983,637	-	-	2,892,730
Jonathan West	-	491,702	-	-	491,702
Hugh M Morgan	3,015,152	1,339,351	-	-	4,354,503
Executive					
Adrienne E Clarke	3,906,179	618,847	-	-	4,525,026
GF Dan O'Brien	1,909,093	1,015,675	-	-	2,924,768
Marilyn A Anderson	2,381,935	-	-	-	2,381,935
Robyn L Heath	2,381,935	-	-	-	2,381,935
	15,503,387	4,449,212	-	-	19,952,599

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Notes to the financial statements for the year ended 30 June 2007

22. RELATED PARTIES (continued)

Movement in shares (continued)

2006	Held at 1 July 2005	Purchases	Received on exercise of options	Sales	Held at 30 June 2006
Non-executive					
Steven M Skala	1,909,093	-	-	-	1,909,093
Jonathan West	-	-	-	-	-
Hugh M Morgan	3,015,152	-	-	-	3,015,152
Executive					
Adrienne E Clarke	3,906,179	-	-	-	3,906,179
GF Dan O'Brien	1,909,093	-	-	-	1,909,093
Marilyn A Anderson	2,381,935	-	-	-	2,381,935
Robyn L Heath	2,381,935	-	-	-	2,381,935
	15,503,387	-	-	-	15,503,387

Other key management personnel disclosures with the Company

Other related parties

- a) Professor Clarke was an employee of The University of Melbourne until 31 December 2005. Dr Heath was an employee of The University of Melbourne during the financial year ended 30 June 2007. During the course of the financial year ended 30 June 2007, amounts (including GST) totaling \$1,180,516 (2006: \$529,838) were paid or payable by Hexima to The University of Melbourne for research work carried out on behalf of Hexima. These transactions were conducted on normal commercial terms. Trade accounts and/or accruals payable to The University of Melbourne at 30 June 2007 were \$672,336 (2006: \$223,004).
- b) Mr O'Brien is the sole director of Dromoland Capital Pty Limited. An amount (including GST) of \$253,321 (2006: \$156,634) was paid or provided to be paid to this entity during the financial year ended 30 June 2007 for services provided to Hexima. These transactions were conducted on normal commercial terms. This amount includes \$110,114 for the provision of office space and secretarial, administration, taxation and accounting services, \$40,274 direct reimbursement for the provision of consulting services (including preparation of the Initial Public Offering documentation and preparation and submission of applications and ongoing administration of government grants) at no margin and \$102,933 direct reimbursement of identifiable expenses incurred on the Company's behalf at no margin. Trade accounts and/or accruals payable to Dromoland Capital Pty Limited at 30 June 2007 were \$3,128 (2006: \$1,261). Following the listing of the Company and the development of its administration capacity, these arrangements will not be required.
- c) Professor Anderson is an employee of La Trobe University. During the course of the financial year ended 30 June 2007, amounts (including GST) totaling \$641,738 (2006: \$282,575) were paid or payable by Hexima to La Trobe University for research work carried out on behalf of the Company. These transactions were conducted on normal commercial terms. Trade accounts and/or accruals payable to La Trobe University at 30 June 2007 were \$432,738 (2006: \$93,500).
- d) Dr Heath is a director of Michael Barnes Graphics Pty Ltd. An amount (including GST) of \$1,847 (2006: \$7,441) was paid to this entity during the financial year ended 30 June 2007 for graphic design services provided to Hexima. These transactions were conducted on normal commercial terms.

Notes to the financial statements for the year ended 30 June 2007

22. RELATED PARTIES (continued)

Other key management personnel disclosures with the Company

Other related parties (continued)

- e) Mr Skala is a consultant to Arnold Bloch Leibler. Mr Skala retired as a partner of Arnold Bloch Leibler in 2004. An amount (including GST) of \$176,046 (2006: \$5,621) was paid to Arnold Bloch Leibler during the financial year ended 30 June 2007 for legal services (and expenses associated therewith) provided to Hexima. These services were provided and expenses incurred on normal commercial terms. Trade accounts and/or accruals payable to Arnold Bloch Leibler at 30 June 2007 were \$55,792 (2006: \$NIL).
- f) Mr Skala is a director of Wilson HTM Investment Group Limited, who underwrote the capital raising completed in August 2007. These services were provided on normal commercial terms. While no fees were paid to Wilson HTM Investment Group during the financial year ended 30 June 2007, underwriting fees of \$2,570,000 and expense reimbursement of \$14,152 were paid subsequent to year end.

23. EVENTS SUBSEQUENT TO REPORTING DATE

Initial Public Offering

The Company issued a Prospectus for the offer of 32,000,000 shares raising \$40,000,000 at \$1.25 per share on 6 July 2007. The offer was fully subscribed and trading of the shares on the Australian Stock Exchange (ASX) commenced on 27 August 2007. The Prospectus can be viewed at www.hexima.com.au.

In addition to the \$307,196 of capital raising costs expensed in the current financial period, it is expected a further \$2,700,000 approximately will be incurred and capitalised against equity in the subsequent financial period. The capital raising costs relate to the listing of existing and new shares on the ASX.

Conversion of Converting Notes

As the Company listed on the Australian Stock Exchange on 27 August 2007 at a value of \$1.25 per share, a Liquidity Event as defined in the Converting Note Commitment Agreement occurred. At this time the Converting Notes converted to 9,049,270 fully paid ordinary shares.

Issued Capital Post-IPO

	Number of Shares	Amount Paid \$
On issue at 1 July 2007	33,224,006	2,361,456
Issued on conversion of converting notes 27 August 2007	9,049,270	11,311,597
Issued for cash – IPO 27 August 2007	32,000,000	40,000,000
On issue at 27 August 2007	<u>74,273,276</u>	<u>53,673,053</u>
Less transaction costs	n/a	(1,890,000)
Total	<u>74,273,276</u>	<u>51,783,053</u>

Notes to the financial statements for the year ended 30 June 2007

Changes in Key Management Personnel

As foreshadowed in the Prospectus dated 6 July 2007 the Company has appointed a Chief Operating Officer and a Chief Financial Officer.

Where appropriate, in addition to receiving a salary, an executive may receive an entitlement to participate in employee share plans. Hexima has recently entered into an agreement with Adam Hall pursuant to which he has been appointed as Chief Operating Officer effective from 1 July 2007. Hexima is to formalise its arrangements with the other members of its management team. No such agreement will be entered into without the recommendation of the Board's Remuneration Committee.

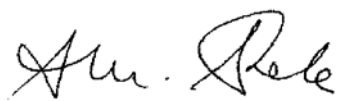
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DIRECTORS' DECLARATION

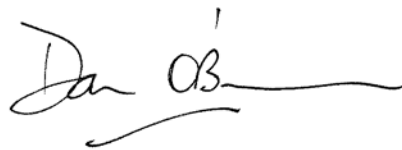
1. In the opinion of the Directors of Hexima Limited ("the Company"):
- (a) the financial statements and notes, set out on pages 18 to 44, and the remuneration disclosures in the Remuneration Report in the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australian Accounting Standards and the Corporations Regulations 2001;
 - (b) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures*; and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 259A of the Corporations Act 2001 from the Managing Director, the Chief Operating Officer and the Chief Financial Officer for the financial year ended 30 June 2007.

Dated at Melbourne, 28th day of September 2007.

Signed in accordance with a resolution of the Directors:



.....
Mr SM Skala
Director



.....
Mr GF O'Brien
Director

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Independent auditor's report to the members of Hexima Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Hexima Limited (the Company), which comprises the income statement for the year ended 30 June 2007, the balance sheet as at that date, statement of changes in equity and the cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration set out on pages 18 to 45.

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" on pages 12 and 13 of the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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.

The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

In our opinion the financial report of Hexima Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained on pages 12 and 13 of the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG
KPMG



Ralph M Ferguson
Partner

Melbourne

28 September 2007