



H E X I M A

Hexima Limited ABN 64 079 319 314

- » *Hexima's products address a large and growing global market.*
- » *Hexima has achieved a number of milestones in key research and development programs.*
- » *Hexima has a clear strategy to take its products to market.*
- » *Following the successful capital raising, Hexima has the resources to implement its strategy.*

**REPORT TO
SHAREHOLDERS
JULY TO
DECEMBER 2007**



MANAGING DIRECTOR'S REPORT

February 2008



Achievements

Since listing in August 2007, Hexima has

- Strengthened important relationships with the major global seed companies and made good progress with our ongoing R&D collaborations
- Planted field trials to test our proprietary fungal resistance genes in cotton
- Produced canola plants containing its proprietary defensin genes
- Filed a significant new patent application
- Appointed three key new staff members.

In addition to our healthy discovery pipeline, Hexima has three key technologies. Two of them are ag-biotech traits, insect and fungal resistance, and the third is a technology for stacking multiple genes into a plant in a single transformation event.

All of these technologies have passed the proof of concept test: we have demonstrated comprehensively that they have a significant effect in cotton in the field. We are now moving along the path of demonstrating, to our ultimate commercial partners, the commercial value of our technology in the important global agricultural crops (cotton, corn, soy and canola).

Our insect resistance or PI technology, already proved in the field in three successive trials in cotton in Australia, is the subject of promising collaborations with two major agribusiness companies in the United States. Our collaborators are currently testing the trait in their proprietary germplasm in their greenhouse facilities.

Hexima's fungal resistance or defensin technology is being tested for the second year in field trials in cotton in Australia. Importantly, our potential partners maintain an active interest in the progress of the trials. We are increasingly confident that the current season trials will align with the very positive results achieved in the 2006/07 season.

Our gene stacking technology, MGEV, has been shown to be effective with a range of different molecules.

Growing Markets

The increasing affluence of China is now being felt, not only in resources, but in global food markets. Combined with population growth and demand for biofuels, there is a real need for existing farmland to become more productive.

After many years of modest performance, farming is becoming significantly more profitable, reflected in the increases in grain prices over the past couple of years. Farmers and agribusiness companies are responding with renewed investment in the sector. It is clear that agricultural biotechnology will form a critical part of the solution to meeting this increased demand.

As the price of the world's key grain products increases, so does the potential value of Hexima's technologies.

Creating Value

The major seed companies are clearly the gatekeepers to the market: they control distribution of seed to farmers. Following the path common in the pharmaceutical industry, the major seed companies have typically sourced their traits from outside, purchasing or in-licensing technology from trait developers like Hexima.

The seed companies have a simple value proposition for farmers. They charge the farmer a percentage of the value created by the trait or technology that ensures farmers receive an attractive return on their investment in the trait.

The trait fee earned is clearly linked to the value created by the trait.

Consequently as prices for grains increase, so do the fees earned by seed companies and trait developers. Trait fees are shared between the seed company and the trait developer, with the fee earned by the trait developer depending on the efficacy of the trait and its strategic value.

The Company is focusing on a number of key markets including the major US markets for corn and soy. Hexima is well advanced in discussions with a number of parties and we hope to see some of these negotiations come to fruition over the coming year.

Management Team

Hexima's management team has grown since the completion of the IPO. Hexima co-founder, Professor Marilyn Anderson, has been appointed as Senior Vice President Research & Discovery. Other key appointments include Dr Neil Forrester as Vice President Business Development, Dr Mark Hulett as Vice President Research and Ms Justine Heath as Chief Financial Officer.

GF Dan O'Brien
Managing Director



RESEARCH & DEVELOPMENT REPORT



Progress in Hexima's R&D Programs

Hexima has achieved a number of milestones in key research and development programs during the period, as well further developing the technology pipeline and researching new applications for existing technologies.

The production of canola plants containing our defensin genes demonstrates the progress being made in Hexima's fungal resistance program. This achievement builds on the Company's successful fungal resistant cotton program and is an important step in rolling out this technology for all key row crops, including corn, soy and cereals.

Field Trial Progress

In late 2007, Hexima planted new field trials for the defensin technology in cotton. Three sites have been planted, two in the Darling Downs in Queensland and one in the Namoi Valley in New South Wales. The trials are designed not only to repeat last year's trials against Fusarium Wilt, but also to test the effect of the technology against other fungal pathogens. While final results for these trials will not be available until June 2008, early indications confirm the positive results achieved last year.

Patent Portfolio

Hexima continues to strengthen and expand its patent portfolio. The key recent achievement was lodging a provisional patent 'Antifungal Methods' on 1 February 2008, which relates to an important new discovery. In addition, several patents relating to our existing technologies are in the examination process in various jurisdictions.

Building the Hexima Team

Hexima is pleased to confirm that, pursuant to the strategy outlined in the prospectus, the Company has made several key appointments.

Professor Marilyn Anderson, a founder of the Company, has been integral to the Hexima's progress over the past decade. During this time, she has led Hexima's Research and Discovery team in addition to academic duties at La Trobe University. She has now relinquished many of these duties to focus on her role as Senior Vice President of Research and Discovery.

Dr Neil Forrester is joining Hexima as Vice President Business Development. An Australian who has recently returned from the United States, Dr Forrester has a wealth of experience in the cotton industry. He was Research Director of Special Projects & Director of New Markets for Delta & Pine Land in the United States, and in his earlier career, he was a Principal Research Scientist and supervisor of cotton research for the New South Wales Department of Agriculture at the Australian Cotton Research Institute.

Dr Mark Hulett has been appointed Vice President Research from January 2008. Now based at Melbourne's La Trobe University, Dr Hulett has joined the team with two major goals. He will undertake the toxicity testing of Hexima's molecules as part of the regulatory approval process and will also lead a research programme into the potential human applications of Hexima's PI and defensin technologies in the treatment of cancer and inflammatory diseases. Dr Hulett comes to us from the John Curtin School of Medical Research where he has had an outstanding career

in cancer and immunology research. In recognition of his standing in that community, he was elected President of the Australian Society for Medical Research. He has also won numerous awards including The Young Tall Poppy Award, the Howard Florey Investigator Award and the Sylvia and Charles Viertel Charitable Foundation Senior Medical Research Fellowship.

Hexima recognises the opportunity to find outstanding young researchers through by our continuing relationship with The University of Melbourne and La Trobe University. The Company is proud of the academic and professional performance of several team members. In particular, Dr Nicole van der Weerden, a key member of our Research and Discovery team at La Trobe University, has completed her PhD thesis and has won a number of awards including a prestigious Victoria Fellowship awarded by the Victorian State Government. These are awarded to emerging leaders in science, engineering and technology. Dr van der Weerden's work has made a significant contribution to Hexima's latest patent application.



FINANCIAL RESULTS

Financial Overview – Half Year ended 31 December 2007

\$000	31 December 2007	31 December 2006
Revenue	461	229
Net profit/(loss) before financing income/expense	(2,580)	(1,292)
Net financing income/(costs)	1,055	(8,470)
Income tax expense	(788)	-
Loss after tax from ordinary activities attributable to members	(2,312)	(9,762)
Net loss attributable to members	(2,312)	(9,762)
Dividends	NIL	NIL
Net tangible assets per share (cents)	47.2	(32.2)
Cash on hand	36.9	5.6

Hexima successfully completed an Initial Public Offering, raising \$40 million prior to expenses, and listed on the ASX in August 2007. The Company has made a number of key appointments and has expanded the size of its research teams which are contracted through The University of Melbourne and La Trobe University, Hexima continues to develop its technology portfolio and has communicated to Shareholders an intention to invest a net amount of \$6–8 million per annum in research, development and commercialisation of its products. Net expenditure for the period to 31 December 2007 was below budget. The Company has cash reserves of almost \$37 million as at 31 December 2007.

The Company recorded a loss of \$2.312 million for the six months ended 31 December 2007, compared with a loss of \$9.762 million for the previous corresponding period.

Excluding net finance expense and income tax expense, the loss from operating activities for the six months was \$2.580 million, compared with \$1.292 million for the previous corresponding period.

This resulted from a general increase in expenditure, reflecting the expansion of the Company's activities in researching, developing and commercialising its technologies, as well as the expenses of establishing the administrative capacity for a listed company, only partially offset by an increase in revenue from collaborations and government grants.

Net finance income for the six months ended 31 December 2007 was \$1.055 million compared with a net loss of \$8.470 million for the previous corresponding period.

The finance income earned in the current period reflects the interest earned on the capital raised in the Initial Public Offering. Included in the previous corresponding period was finance expense of \$8.484 million, which 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.

Income tax expense of \$0.788 million was incurred in the six months ended 31 December 2007, representing the temporary timing difference related to the transaction costs on the issue of share capital. No deferred tax asset was recognised as it is not certain that future taxable profit will be available against which the Company can utilise the benefits therefrom.