



## BIOTECH CAPITAL LTD HALF YEARLY REPORT DECEMBER 2009

Dear shareholder

I am pleased to be able to report to you for the half year ending 31 December 2009. Global financial markets have staged a strong rally over recent months as fears of a deep-seated global recession recede amongst signs of economic growth in key economies. Whilst there is still a long way to go before unemployment levels in important markets such as the United States starts to decline it seems that the concerted efforts of global governments to stimulate activity has been successful. However, recent market weakness highlights that underlying fragility in investor confidence remains an important factor to any sustainable recovery.

What has been surprising to many observers is the pace at which more risky sectors such as mineral exploration and healthcare have managed to attract investor attention. Many listed companies have seen their share-prices improve multiples from their, albeit oversold, low levels.

As a portfolio investor, BioTech Capital has enjoyed the benefits of having exposure to several listed companies that have enjoyed very strong re-ratings. The achievement of key milestones in coming months could see even greater increases in share prices and provide a window for us to reduce our exposure to these companies – subject to market conditions not deteriorating.

The investment strategy of BioTech Capital remains focused on managing existing investees and seeking exits at fair values for our holdings. The proceeds of these exits will principally be applied to considering non-healthcare related opportunities and also to continue our share buyback program. No new healthcare investments will be undertaken outside of the existing portfolio. The buyback program is in place to minimise the discount that the share price trades to underlying asset value and also to provide a mechanism for existing shareholders to reduce their holdings if they desire.

The portfolio contains eleven investments with four of these listed and the balance remaining private. A brief summary of each of these investments is provided below:

**Alchemia:** Has experienced a significant re-rating on the expectation of imminent approval from the United States Food and Drug Administration (FDA) which will allow the company to begin generating significant income from the market launch of its generic heparin product.

**Biocomm:** This entity remains a holding company with underlying positions in two companies including Hatchtech which has commenced an FDA-approved human clinical trial for treatment of head lice. The other investee, CNS BIO, is re-organising to be a US-domiciled entity.

**Continence Control Systems:** Focused on improving the lifestyle of patients suffering from urinary and/or faecal incontinence. The company has further refined its technology platform to assist patients who have undergone colostomy surgery to better manage their bowel movements. It is currently exploring capital raising opportunities that will allow it to fast track technology development and commence clinical trials.

**Generic Health:** Focused on exploiting the fast-growing opportunities in the Australian generic medicines market. Revenues continue to grow as the company expands into the hospital generic market.

**Neurodiscovery:** The company continues to grow revenues and operating profit from its service business. The Board is actively considering a number of strategic decisions in order to address the chronic depressed share price. Further information on what paths are available to the company are expected to become clearer over coming months.

**Pacific Knowledge Systems:** Revenues continue to grow with new customers coming on stream as well as applications in non-health areas both domestically and offshore. The company has shown consistent growth in turnover and cashflow over recent years as market acceptance of the product results in increased take-up and use. The company continues to grow its revenue base toward its objective of becoming an attractive acquisition target for a multi-national group.

**Phylogica:** Phylogica's technology platform and the breadth of applications as a discovery tool is now being increasingly recognised by the biopharmaceutical industry. The company has recently announced a significant partnership with Roche (one of the world's largest pharmaceutical companies) that wish to explore the phylomer library to identify molecules capable of carrying drugs to attack disease targets inside cells. Other collaborations continue to progress well and new partnerships are expected to be formed in coming months. The company's internal data and pipeline of potential applications and partnerships has never been stronger.

**Sensear:** Successfully expanded its footprint outside of Australia with distribution deals in place with some of the world's largest industrial and safety distributors. New clients continue to increase with 250 new groups in a broad range of industries across the world now using Sensear products. Product range expanded from plug only, to now include the ear muff version. This range now includes various models enabling face-to-face, Bluetooth (mobile), two-way radio and short range in either a headband, helmet mount or behind the neck configuration.

**Starpharma:** Continues to develop partnerships around its dendrimer platform with the most recent being a collaboration with Eli Lilly around its human health platform using dendrimers as novel drug delivery molecules. Other core programs such as the condom coating partnership with SSL International and the in-house vaginal microbicide gel are also progressing forward.

**Stem Cell Sciences:** Currently undergoing a Member's Voluntary Liquidation following the sale of assets to US-based Stem Cells Inc.

**XRT:** Continues to build a global distributor network to better market its high resolution imaging technology. However, the global financial crisis is affecting capital expenditure of the company's target customers and as a result XRT is maintaining a low cash-burn model until there is greater certainty of the ability to convert the current sales pipeline into actual sales.

The Board has recently reviewed the carrying value of the unlisted portfolio and have adopted an additional general provision of \$1.5 million recognising the impact of the global financial crisis on the business plans of certain holdings and if these assets were to be sold at this time. The Board continues to maintain a very conservative valuation policy.

Over the reporting period, the share price has recovered significantly having risen from approximately 15 cents per share to current levels of 30 cents per share. Importantly, the share price discount to underlying net tangible asset backing has declined from over 50% to levels approaching 10% reflecting the impact of our buyback program. This program has purchased approximately 5.4 million shares since 1 July 2009 or around 6.6% of our issued capital.

We remain focused on working closely with our existing portfolio companies to ensure that value creation is maintained and exits at fair prices can be generated in a reasonable time frame.

On behalf of the Board of Biotech Capital, we thank you for your ongoing support.

Harry Karelis  
Managing Director