



BIOTECH CAPITAL LTD HALF YEARLY REPORT DECEMBER 2008

Dear shareholder

It is no secret that the past six months has seen a continued deterioration in global investor sentiment as evidence mounts that the world is in a deep and long-lasting recession. This environment has pervaded all asset classes where investors have fled to the relative safety of cash. Whilst the healthcare sector is traditionally considered a defensive sector – people still spend money on medicines irrespective of global economic conditions – investor interest remains low in those companies that do not have cash-flow positive businesses.

These conditions result in the larger companies attracting what limited investor interest there is to the detriment of the smaller companies. This leads to a valuation mis-match which the larger companies tend to address through increased merger and acquisition activity.

The portfolio of companies that BioTech Capital provides investors access to contains a relatively diverse group of underlying companies. Many of these companies are now in revenue-generating phase and making solid progress.

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

Alchemia: There is no better example of investor dis-interest than ASX-listed company Alchemia which is poised to begin generating significant income from the market launch of its generic heparin product. Despite significant cash reserves (A\$12 million) and near-term revenue forecast by analysts in the order of A\$30 million per annum investors value this business at only A\$20 million. In a normal market, Alchemia can reasonably be expected to be re-rated significantly as income generation becomes a reality.

Biocomm: This entity remains a holding company with underlying positions in three companies including Hatchtech which has commenced an FDA-approved human clinical trial for treatment of head lice. Results should become available from this trial during 2009.

Continence Control Systems: Focused on improving the lifestyle of patients suffering from urinary and/or faecal incontinence. The company has developed a novel implantable stimulator – the “bionic sphincter” – that is being further developed to provide a system of maintaining urine in the bladder for patients that have lost bladder control. The company also has technology to assist patients who have undergone colostomy surgery to better manage their bowel movements.

Generic Health: Focused on exploiting the fast-growing opportunities in the Australian generic medicines market. The company has positioned itself as one of the lowest cost suppliers of key drugs that have come off-patent and has forged strong offshore links with suppliers and partners. During 2008 it announced that Lupin Pharmaceuticals (a Top 5 Indian generic pharmaceutical company) had become a significant shareholder in the company.

Neurodiscovery: The company continues to grow revenues and operating profit from its service business with a 40% increase for the most recent quarter. In order to conserve cash, it has suspended any further development on its lead pain therapeutic programme as the future development strategy is finalised with its joint venture partner. This programme has generated positive results to date and the company now has the ability to either continue to develop the project or seek a development partner at this stage. We believe the market capitalisation of Neurodiscovery remains significantly below its underlying value.

Pacific Knowledge Systems: Continues to grow revenues derived from the application of its novel software to the healthcare industry. The company has shown consistent growth in turnover and cashflow over recent years as market acceptance of the product is resulting in increased take-up and use. Importantly, the level of interest from offshore based groups is also growing and has the potential to result in significant earnings growth in the short and medium term. The company continues to grow its revenue base toward its objective of becoming an attractive acquisition target for a multi-national group.

Phylogica: Has developed a powerful drug discovery engine that has been successful in generating leads and novel drug candidates against a range of targets. Most recently, success has been shown against clinically important "superbugs" where there is an unmet need for treatments against multi-drug resistant strains of bacteria. The traditional pharmaceutical industry continues to move into the biological drug space (ie. exactly where Phylogica is positioned) highlighting the need for these major players to obtain new and more efficient ways of discovering next generation drugs. Phylogica has now assembled a range of data demonstrating that its technology is one of the most efficient drug discovery platforms in the world.

Sensear: The company continues to move forward strongly having recently released its next product line being a "muff" product complementing the "plug" product. The target market remains industrial customers who have staff that need to communicate in noisy environments. Revenues are tracking significantly ahead of the previous year as market awareness grows. Distributors have now been established in many of the key global markets. Most recently the company was successful in having the product registered with the Australian Office of Hearing Services providing the opportunity for eligible patients to redeem Federal-government issued vouchers to purchase the product.

Starpharma: Starpharma is a world leader in the development of new classes of molecules known as dendrimers, which can be designed to have specific size, shape and properties, making them suitable for a variety of medical and non-medical applications. The company's lead product is VivaGel™, a gel-based formulation of dendrimers under development as a vaginal microbicide to protect women from the sexually transmitted HIV and genital herpes. The most significant commercial event during 2008 was the signing of a full licence agreement with SSL International (maker of Durex branded condoms) estimated to generate in excess of A\$100 million to Starpharma comprising royalties, milestone payments and development support.

Stem Cell Sciences: Is currently in discussions with third parties who have interest in acquiring its suite of technologies and patents. No further information can be disclosed at this time.

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 a general provision of 15%, or approximately \$2.7 million, to recognise the difficult market conditions at present and if these assets were to be sold at this time.

The share price continues to trade at a significant discount to underlying asset value. To help address this issue our share buyback programme is implemented from time to time when we believe we are not in possession of price sensitive information. To date we have purchased 5.3 million shares or approximately 6% of issued capital prior to the buyback commencing.

You will recall that approval was given at our 2008 Annual General Meeting to relinquish our Pooled Development Fund (PDF) status at a time the Board thought was in the best interests of shareholders. We continue to review numerous opportunities currently not able to be pursued as a PDF. To date, nothing has emerged compelling enough to warrant dropping the PDF status.

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

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

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