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# RESEARCH

BLUE BOOK SERIES

## Health & Life Science Review

Quarterly

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A winter chill settles over the sector

## Contents

This is an extract from the August 2006 Health and Life Science Review.

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# Narhex Life Sciences Limited (NLS)



Sector	Industry Group	Sub Industry	Disease Target
Life Sciences	Biotechnology	Drug Discovery	Anti - HIV/AIDS

## Company Overview

Narhex Life Sciences has developed a new class of protease inhibitors, which are a group of drugs used to treat HIV infection. The lead candidate is DG17, which when ingested is converted to DG35, the molecule with anti-HIV activity. These compounds are covered by issued or filed global patents.

Three Phase IA (safety and pharmacokinetic studies in normal volunteers) and one Phase IB (safety and efficacy in short-term monotherapy of HIV infection) clinical trials have been completed, and have shown safety and some evidence of efficacy.

In April 2006, Narhex purchased the assets of a Swedish biotech company, Cavid Tech AB, which was in administration. Cavid Tech has developed, and sells, a low-technology, low-cost test (ExaVir Load) to measure HIV "viral load" (the amount of HIV in plasma); this test is considered essential for managing HIV-infected patients, whether on therapy or not. Narhex has re-incorporated the company as Cavid AB, a wholly owned subsidiary.

## Strategy

To add to the value of DG17 by conducting small, focussed and innovative clinical trials, completing the remaining in vitro and animal toxicology studies, and ensuring that economical GMP manufacture of the drug has been organised. To conduct a definitive Phase II study of DG17 compared with standard therapy in China.

To build sales of the Cavid ExaVir Load in the African region, where there has already been significant uptake of the test, and to begin selling in the Asia-Pacific region, especially in India, China and Indonesia.

## Key Executives

**Prof John Mills** (BS, MD, FACP, FRACP), Managing Director & CEO: Prof Mills is also a non-executive director of GBS Venture Partners P/L and Phosphagenics Corporation, and a director of TissuPath P/L. From 1995 to 2003, Prof Mills was also a non-executive director of AMRAD Corporation, holding a number of board positions, including Chairman in 2001-02. He holds professorial appointments at Monash Univ & RMIT, and is a consulting physician at the Alfred & Austin Hospitals in Melbourne.

**Dr Michael Cohen** (MBBS, FRCPA), Executive Chairman: Dr Michael Cohen has over 30 years' experience in the medical profession and medical business. He was founder of Scientific Services Ltd, which was listed as a public company in 1987 and subsequently sold to Security Generale de Surveillance. Dr Cohen has been a director of several listed Australian biotechnology companies, most recently Peptech Limited. Dr Cohen is a member of several national and international associations, including being a Fellow of the Royal College of Pathologists Australasia.

**Peter Nash**, Executive Director, China: Peter Nash has advised Australian businesses in relation to mergers, acquisitions and financing in China. He has a proven network of contacts in China. Mr Nash was largely responsible for Moody International's foray into China by introducing the company to CCIB State Inspection Authority.

## Key investment information

Market Cap: \$19.4M

### Capital Structure (M)

Ord shares on issue: 161.4

Options (fully diluted): n/a

Convertible notes/other: n/a

Price as at 07-Aug: \$0.12

12 month H/L: \$0.08 - \$0.16

Shares Traded (pa): \$1.9M

Official listing date: Jan-05

### Substantial Shareholders

Ebling Pty Ltd 22.9%

John Majewski 17.0%

Budi Hananto Seto 15.2%

### Cash Position

Cash (as at June 06): \$6.1M

Years with planned expenditure: 1.0

R&D as % expenditure: 75%

## Company contact



**Prof John Mills**  
Managing Director & CEO; Executive  
Chairman of Cavid AB

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## Main Company R&D Projects - Major Technology & Market

### 1: Narhex DG17 development

Target Market:	HIV-infected patients	DG17 needs to be protected from gastric acid by enteric coating, and when given with "mini-dose" ritonavir plasma DG35 levels are boosted by 10- to 40-fold. The definitive proof-of-concept study will treat previously untreated, HIV-infected patients with two different doses of DG17, given with "baby-dose" ritonavir twice daily for 10 days. The main outcome measure is reduction in viral load of more than 10-fold. These data will allow us to select a dose for the Phase II trial to begin in China.
Stage:	Definitive Proof of Concept Study	
Target Date:	Q4 2006	

### 2: Narhex DG17 development

Target Market:	China and Western world	Through the Narhex-China JV, we will conduct a definitive Phase II clinical trial in China. This will be a randomised, placebo-controlled trial in which all patients will receive standard "backbone" therapy of AZT + 3TC (in a single pill); patients will be randomised to receive either conventional adjunctive therapy (e.g., nevirapine or efavirenz) compared with DG17 plus ritonavir. Two hundred patients will be enrolled, 1/2 in each arm, and they will be treated for at least 24 weeks.
Stage:	Phase II	
Target Date:	Start Q1 2007	

Outcome measures of this study include efficacy (proportion of patients with HIV viral load undetectable at 24 weeks; relative increase in CD4 lymphocyte counts), acceptability and toxicity.

### 3: Cavid ExaVir Load Sales

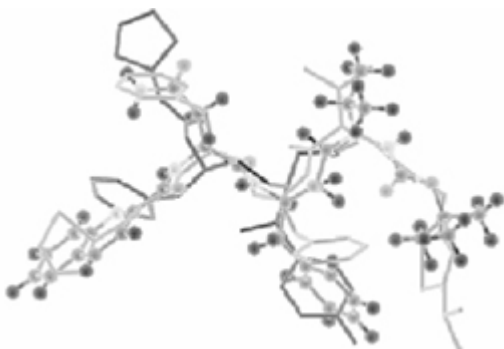
Target Market:	Africa and Asia	We have mounted a major sales effort for the Cavid ExaVir Load assay, with the intention of bringing this Narhex subsidiary to profitability by the end of Q2 2007 (i.e., by the end of the current fiscal year).
Target Date:	Q2 2007	

## Aegis Equities Comments

**Market Position:** NLS is seeking to commercialise a low-cost HIV/AIDS drug, DG17. NLS has shrewdly made China and other developing nations its primary target market, rather than the US, where DG17 would face stiff competition. AIDS is now a top priority in China. NLS and Shaanxi Dacheng of China are finalising a JV, which plans to fund phase II and III trials in China. NLS recently acquired Cavid, which makes and sells an inexpensive test kit, ExaVir, for measuring HIV viral loads and HIV treatment responses.

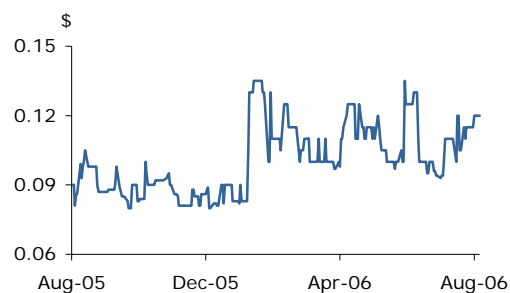
**Milestone Record:** DG17 made good progress in 1H CY06. In Feb-06, NLS signed Dr Reddy's as manufacturing partner. An Apr-06 trial showed that a simple antacid significantly improved absorption of DG17, which converts into the active DG35 agent. In Jun-06, a study showed that pairing DG17 with very low doses of another AIDS drug, ritonavir, greatly increased the maximum blood level and half life of the active agent (potentially allowing once or twice daily dosing), prompting NLS' SAB to recommend rapid development of the drug. In May-06, the ExaVir test kit was also launched in Ethiopia, which has AIDS financing provided by the Global Fund.

**Risk Profile:** NLS' risk profile will improve when the JV with Shaanxi Dacheng is finally signed, although "doing business in China" risks remain, as do clinical trial risks. NLS' CEO is an experienced biotech director and AIDS specialist. NLS ended Jun-06 with cash reserves of \$6.1M, expected to last one year. NLS will need to raise more cash to fund its share of phase III trial costs.



Source: Narhex

### Share price performance



Source: IRESS



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