

AUSTRALIAN

RESEARCH

BLUE BOOK SERIES

Health & Life Science Review

Quarterly

February 2007

Investor interest in the sector revives

EXTRACT

Contents

This is an extract from the February 2007 Health & 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. Future clinical trials are planned for 2007.

In April 2006, Narhex purchased the assets of a Swedish biotech company, Cavid Tech AB. Cavid Tech has developed, and sells, a user-friendly, 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.

Strategy

To add to the value of DG17 by conducting small, focused 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 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: \$9.7M

Capital Structure (M)

Ord shares on issue: 161.4

Options (fully diluted): n/a

Convertible notes/other: n/a

Price as at 14-Feb: \$0.06

12 month H/L: \$0.05 - \$0.16

Shares Traded (pa): \$1.5M

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 Dec 06): \$2.9M

Years with planned expenditure: 1.0

R&D as % expenditure: 75%

Company contact



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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 works best when enteric-coated and "boosted" with low-dose ritonavir. Narhex will conduct a dose-finding study starting early 2007 in which previously untreated, HIV-infected patients will be treated with two different doses of DG17. The main outcome measures achieving a reduction in viral load of more than 10-fold, and the quantum of reduction in viral load.
Stage:	Definitive Proof of Concept Study	
Target Date:	1Q 2007	

2: Narhex DG17 development

Target Market:	China and Western world	Through the Narhex-China JV, we will conduct a definitive Phase IIB clinical trial in China, a randomised, placebo-controlled study comparing standard therapy with DG17. 200 patients will be enrolled, 1/2 in each arm, and they will be treated for at least 24 weeks.
Stage:	Phase II	
Target Date:	3Q 2007	

3: Cavidix ExaVir Load Sales

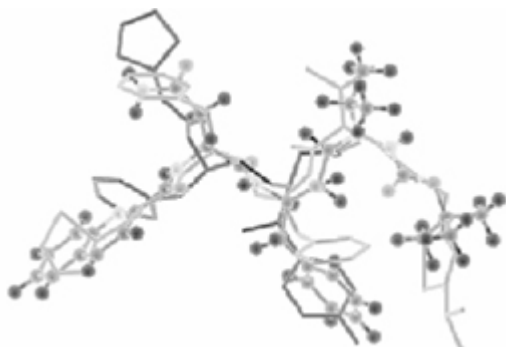
Target Market:	Africa and Asia	The company has mounted a major sales effort for the Cavidix ExaVir Load assay, with the intention of bringing this Narhex subsidiary to profitability by the end of Q2 2007 (i.e., by the end of the current fiscal year). Sales figures for Q2 FY06-07 have largely met expectations, and we are actively seeking distributors in additional areas.
Target Date:	2Q 2007	

Aegis Equities Comments

Market Position: NLS is seeking to commercialise its drug DG17, which is a low-cost HIV/AIDS treatment. NLS' strategy is to target developing nations where competition is weak and demand high. NLS and Shaanxi Dacheng of China have registered a Chinese JV, which plans to fund phase II and III trials in China. NLS' subsidiary Cavidix produces and sells an easy-to-use, inexpensive HIV test kit (ExaVir), which measures HIV viral loads, critical to assessing treatment responses.

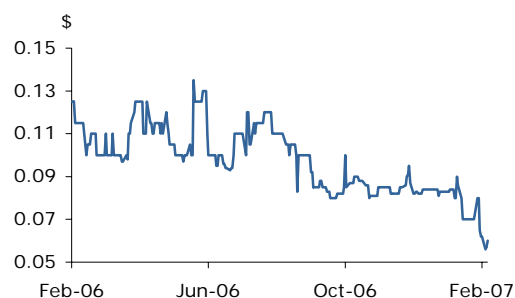
Milestone Record: Late CY06, NLS substantially resolved obstacles to manufacturing DG17 to GMP standards, with the first batch ready for clinical trials. Several countries have expressed interest in recruiting patients for trials of DG17. Cavidix's ExaVir kits, which showed strong sales growth in the Dec-06 quarter, have been forwarded to the Chinese Ministry of Health to seek Chinese FDA approval. Cavidix is collaborating with Melbourne's Burnet Institute to evaluate the ExaVir test kits and train Asian-Pacific laboratories in their use.

Risk Profile: NLS' risk profile should improve through the formation of its Chinese JV and as revenues start to flow from ExaVir sales. The signing of Dr Reddy's as manufacturing partner was a good step forward. Clinical trial and "doing business in China" risks remain. NLS' CEO is an experienced biotech director and AIDS specialist. NLS ended Dec-06 with cash reserves of \$2.9M, enough to last 2-3 quarters. NLS will need to raise capital in the near future, for working capital use and to fund the trials of DG17.



Source: NLS

Share price performance



Source: IRESS



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