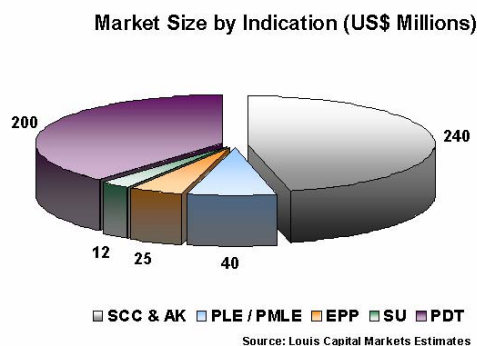


Description

Clinuvel Pharmaceuticals Limited is an Australian biopharmaceutical company focused on developing its photoprotective drug, afamelanotide, as a preventative treatment for UV-related skin disorders and cancer-related treatments. Afamelanotide provides skin protection against UV radiation by stimulating the body's natural ability to produce eumelanin, which is known for its photoprotective properties. The company is currently testing afamelanotide in 42 European and Australian centers.

Investment thesis

As developed country populations continue to "grey", we expect demand for new and personalized drugs to attract more investment. Due to the technological barriers to entry and greater "bang per R&D buck" it's our view that well managed biotechnology teams, as opposed to large pharmaceutical firms, are better suited to deliver shareholder value. We also expect large pharma companies to increasingly depend on internal discovery and development, acquisition of external technologies and drugs and co-development alliances to optimize their development portfolios and fill pipeline shortfalls. In-licensing, acquisitions of smaller biotech companies and strategic alliances will increase.



Conclusions

Despite the global economic slowdown biotech R&D pipelines remain steady with robust sales. However during recent market volatility investors have overlooked value in biotech companies such as Clinuvel and the potential of its drug afamelanotide. Key points include the quality of the management team leading the regulatory strategy, a string of successful clinical trials, a healthy share-placement program and clinical funding.

- **Steep industry barriers to entry:** We expect the biotech industry to outperform large pharmaceutical firms in terms of ROE. The primary reasons are that competitive bio-generics face 1.) Higher development costs 2.) Greater development time 3.) Quality requirements and uncertain approval and patent procedures. These obstacles require bio-generics to restructure their business model while largely insulating biotech industry profits from erosion.
- **Superior R&D to Net income:** On average biotechnology firms generate higher net income to R&D costs vs. large pharmaceutical firms.
- **Orphan Drug Demand:** Demand for Orphan Designated Drugs (ODD) continues to increase.

Date: 18 Nov 2008

Key ratio and statistics

Bloomberg code: CUV AU
XETRA-DAX UR9 GR
ADR CLVLY US

Current price (AUD) 0.25
52-week range (AUD) 0.20-0.54
Current market cap 75.79M
12-m avg daily volume 512221
Shareholder's equity 51.81M
Share outstanding 303.149M

Fiscal Year (2007)

EPS -0.027
EPS growth -43.62%
DPS N/A
P/E N/A
P/B 1.3749
Price / Cash N/A
Div yld (%) N/A
Net income -8.1744M
Profit Margin N/A

Hist. Price (AUD) & Volume (M)



Industry: Pharmaceuticals
Sub Industry: Therapeutics

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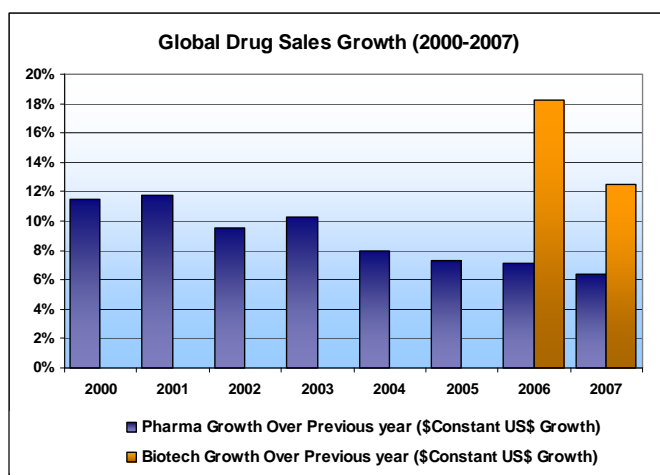
Industry Overview

In terms of life and business cycle the biotechnology industry is currently in a growth phase; in 2007 twenty-two biotechnology drugs achieved sales of US\$1B versus six US\$1B biotech drugs in 2006. In market size the U.S. remains the largest with 56% of total sales while five major European markets and Japan composed 24% and 5% respectively. For this reason the majority of this report will focus on regulatory developments in the U.S. market.

Industry health: A 2008 report from IMS Health stated global biotech drug sales grew 12.5% in 2007 to more than \$75B, almost double the 6.4% growth in the overall pharmaceutical market. However the report also notes 2006 biotech sales growth slowed to 18.2% due to the following:

- Intensifying generic competition (particularly outside the U.S. market)
- Weaker sales due to greater competition in some therapeutic areas
- Insurers raising the bar in treatment coverage
- Growing safety concerns for some therapies

Exhibit 1: Worldwide Drug Sales Growth



Source: IMS Health (2000-2005 Biotech data unavailable)

IMS Health forecasts biotech sales will moderate through 2012 however we note R&D pipelines with biotech account for 25% and growing. Although only three new biotech drugs were launched in 2007, six new \$1B biotech drugs are scheduled for launch by the end of 2009 reinforcing our conclusion demand remains strong.

Technology

Technology advances continue to drive biotech industry growth allowing firms to deliver the "biggest bang per R&D buck" vs. traditional pharma companies. The Tufts Center for the Study of Drug Development expects rising R&D costs and safety / comparative efficacy regulations to re-align the U.S. pharmaceutical industry along the following lines:

- **Biotech firms to seek closer alliances with academia and NIH scientists to validate biomarkers and leverage new drug-testing technologies**

- **Increasing use of information technology in clinical trials and patient recruitment / retention to improve drug development efficiency:** CUV's IT investments in platforms such as Xptise.com have enhanced information dissemination between patients and physicians while reducing development time and costs. This novel online communication platform is designed to keep the public and investors updated on:

- Skin and biology
- UV-light and environment
- Pharmaceutical development

Interactive facilities are scheduled for launch by December 2008.

- **Reliance on internal discovery and development, acquisition of external technologies and co-development alliances are expected to optimize development portfolios and fill R&D pipeline shortfalls. In-licensing, acquisitions and strategic alliances are also expected to increase:** According to Roche the average cost of in-licensing late-stage products from 2000 to 2005 increased at a 40% CAGR to approximately US\$450M. Roche forecasts by 2010 40% of pharma industry sales will originate from external innovation sources. Furthermore, demand to replace dwindling pharma R&D pipelines has transformed drug candidates and innovative technologies into rare commodities, boosting opportunities for acquisitions and in-licensing. In the interim we expect small and mid-tier drug developers to continue soliciting large-cap pharma companies for new development molecules. Finally we believe CUV's first-in-class drug is well placed to benefit from this in-licensing and acquisition scenario.

Government

Although underlying demand for new drug technologies is healthy, the FDA has continued to tighten regulations and NDA market approvals. We recognize the FDA's foremost concern is drug safety and the risk/benefit equation, however we also point out that a tighter supply side will support strong sales, reinforcing industry growth.

Regarding bio-generics and bio-similars: The barriers to entry for bio-generics are higher than traditional small molecule generics. To illustrate the point, bio-generic companies competing against biotech firms face higher development costs, greater development time, quality requirements and uncertain approval and patent procedures.

To effectively compete, bio-generics must develop a new business model with respect to manufacturing, clinical trials, regulatory compliance, pharmacovigilance testing and marketing. Furthermore the necessary investment to put a bio-generic through the required clinical trials is considerable. For these reasons we expect bio-generic players to have an insignificant impact on the market in the mid-term.

Risk vs. benefit: The FDA's reaction to public criticism is typically characterized by over-caution, drug recalls and declining approvals. During the late 1990's the FDA responded to public safety concerns by withdrawing 10 drugs in three years. Following a spurt of approvals from 1999-2003 the last 5 years have continued to decline; in 2004 the FDA recalled Merck's Vioxx painkillers signaling a broader shift in the risk/benefit evaluation. Previously acceptable risks were voided and benefits that formerly facilitated new drug approval were invalidated. This shift has led firms to reorganize their regulatory strategies and shake out less proficient development programs. This is also why we underscore management teams (such as Clinuvel) that consistently meet regulatory targets as core value drivers.

Post-market drug studies decrease time to market: The FDA Amendments Act of 2007 granted the U.S. government authority to require post-marketing studies throughout a drug's lifecycle. In addition to increasing safety these new regulations are designed to decrease time to market by alleviating burdens on drug developers to practically determine everything about a drug prior to approval. This is positive for consumers and the industry as a whole.

Shifting political landscape: As healthcare reform moves to the forefront of the U.S. political landscape next year we expect every facet to be impacted. The more authoritarian Democrat proposal focuses on effective costs and benefits via government mandates while the now diminished Republicans would likely be less intrusive by promoting "affordable and available," coverage through tax credits and state programs. Either way we view the political trend toward approving drugs that provide the greatest benefits for the lowest risks and costs.

ODD financial incentives: Clinuvel's recent U.S. ODD approval provides the following incentives:

- Tax relief for clinical research costs
- Regulatory application fee assistance
- Clinical research study designs
- Special protocol and technical assistance
- Waives the 2008 Prescription Drug User Fee Act filing fees of US\$1 M per application

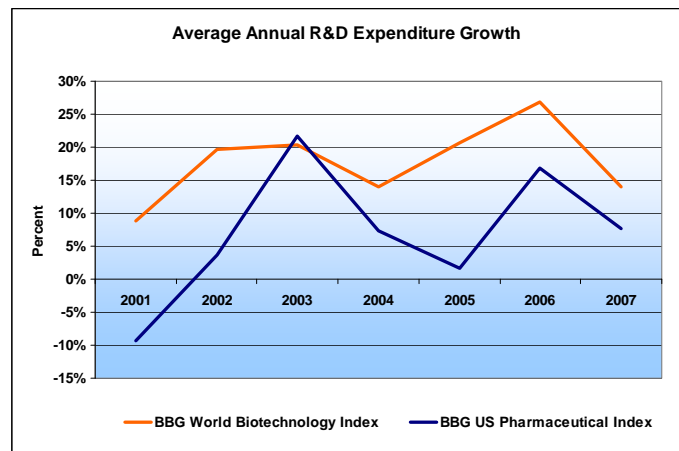
Most importantly ODD status grants seven years U.S. market exclusivity rights and 10 year exclusivity in Europe, shielding NME's from generic or competitive pressure.

Biotech Costs vs. Benefits: We view biotech industry growth as a viable alternative to large pharma in terms of R&D expenditures to net income and increasing demand for personalized drugs. As regulatory scrutiny increases in tandem with public concern over drug safety & efficacy the following trends have emerged:

- For Original New Drug Applications the standard "NME" approval path yielded an average 17.36% during the last 3.5 years. However, we note the NME strategy remains the 2nd most likely path to FDA drug approval following "New Formulations" at 38.49%. (See Exhibit 6)

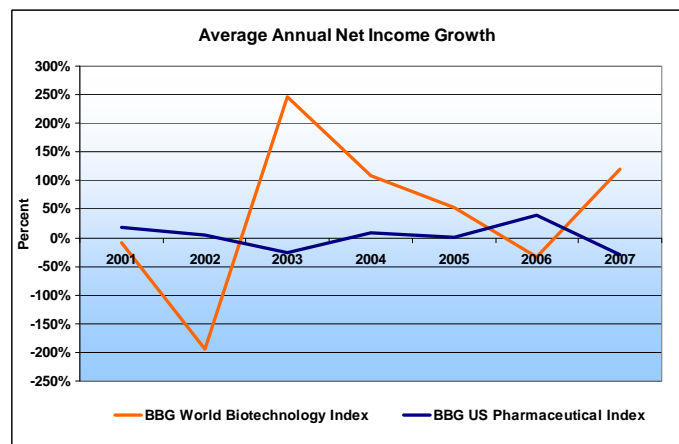
- Given the trend of higher biotech net income growth vs. large pharma we believe the biotech industry is more efficient in terms of R&D expenditures. Exhibits 2 and 3 demonstrate large pharma is less proficient in moving R&D costs to the bottom line vs. biotech R&D expenditures to net income. In Exhibit's 2 & 3 average net income growth in the BBG World Biotechnology Index grew 41.6% from 2000 to 2007, easily outpacing the 17.7% growth in R&D expenditures. By contrast the BBG US Pharmaceutical Index average net income grew by 2.78% over the same period vs. 7.1% growth in R&D expenditures.

Exhibit 2: R&D Expenditure Growth



Source: Bloomberg

Exhibit 3: Net Income Growth



Source: Bloomberg

We conclude that much of the efficiency of biotech R&D programs stems from product efficacy (evidenced by high demand), barriers to entry vs. bio-generics and effective allocation of resources in their R&D programs.

Demographics

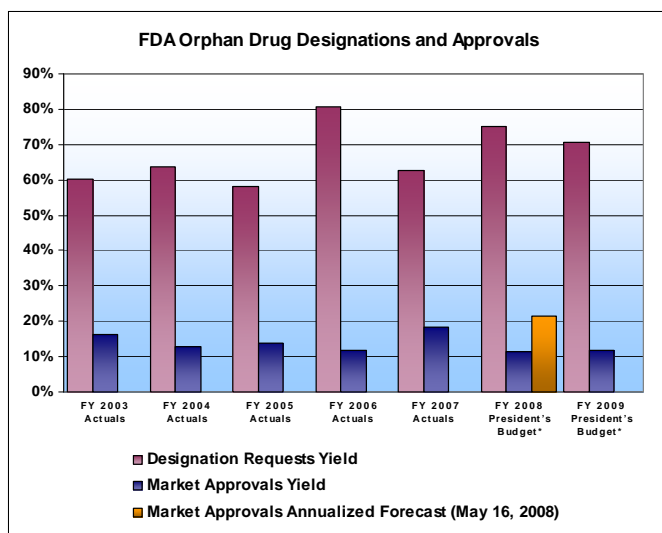
Long-term biotech demand is rising as developed populations in Europe, U.S. and Japan continue to “grey”. This trend reflects as a political issue since older citizens are more likely to vote, putting pressure on government regulators to approve new technologies. For example biotech strategies targeting Alzheimers and cancer research catering toward older populations may prove more resilient against bio-generics and provide opportunities for growth.

Company Analysis

The U.S. Office of Orphan Products Development: The U.S. ODA law passed in 1983 has resulted in 2622 ODD applications and 1850 designations (70%) with 362 receiving marketing authorization (19.56%) Until May 2008. From 2003 to 2007 market approvals averaged 14.52%, indicating approvals have declined recently. However we expect demand for orphan designation approvals to pick up demonstrated by the trend in Exhibit 4 and figures below:

- During FY 2007 there were 184 OD designation requests representing an 8% increase over the 2003-2006 application average. Applications included potential treatments for several kinds of cancers, multiple myeloma, sickle cell disease and anthrax infection.
- In 2007 OOPD designated 115 orphan drugs (62.5%) and approved 21 (18.26%) for marketing. As of May 16, 2008 OOPD approved 13 drugs at an annualized rate of 21.3%, far above the 2008 Presidential Budget estimates of 11.33%. This evidence supports our conclusion of strong demand for ODD's.

Exhibit 4: Orphan Drug Approvals



Source: U.S. FDA and Louis Capital Markets estimates

Clinuvel receives U.S. Orphan Drug Designation (ODD): On July 29, 2008 the FDA granted Clinuvel's afamelanotide drug Orphan Drug Designation for treating erythropoietic porphyrias (EPP), which affects less than 200,000 patients in the U.S. alone. The ODD is a key milestone for the firm and the first time Clinuvel has obtained U.S. regulatory recognition. This recognition not only accelerates the drug review process but indicates management's ability at compiling drug and formulation data. Pending positive clinical results Clinuvel stands a fair chance of obtaining EPP Investigational New Drug (IND) approval by the end of 2008, and potential US authorization by 2011. We view this as a positive catalyst for share price gains. Clinuvel also plans to file for European marketing Authorization in 2009 and receive approval in 2010.

Excluding sun avoidance there are currently no other marketed drugs or methods for UV-related skin disorders and cancer-related treatments. Clinuvel was previously granted Orphan Medicinal Product status for EPP and Congenital Erythropoietic Protoporphyrria (CEP) from the EMEA on March 4, 2008 and Swissmedic on April 29, 2008.

When adopting a new technology FDA evidence levels primarily depend on:

1. The uncertainty factor
2. How society could potentially be affected in terms of resources and health

Since the uncertainty factor is largely determined by the number of affected patients, the FDA typically accepts lower evidence levels for orphan drugs which increases the odds for approval.

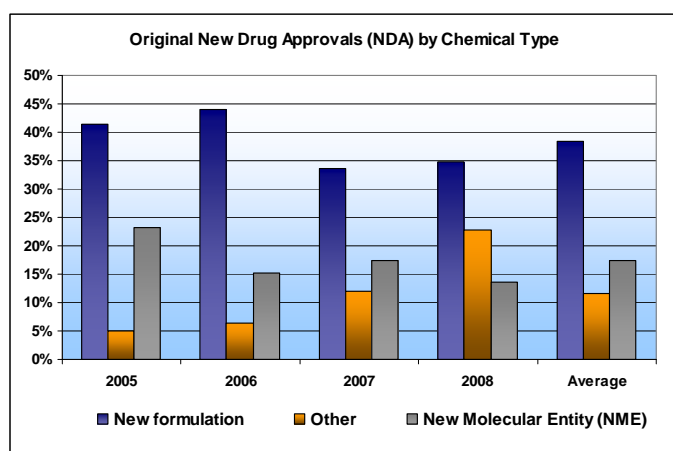
FDA New Drug Approval Rates: U.S. regulators review new drugs on clinical and safety data first utilizing risk benefit models. Increased FDA scrutiny resulted in 16 approvals for new molecular entities (NME's) in 2007, suggesting a 10-year decline of approximately 60%.

The trend of approving drugs falling outside the traditional 7 chemical types is demonstrated in Exhibit 5 (see “Other”). The 7 Chemical Types currently are:

- 1 - New molecular entity (NME)
- 2 - New ester, new salt, or other noncovalent derivative
- 3 - New formulation
- 4 - New combination
- 5 - New manufacturer
- 6 - New indication (Beginning in 1994, Type 6 NDAs were tracked as efficacy supplements)
- 7 - Drug already marketed, but without an approved NDA

We believe the growth in “other” results from pharma companies reducing R&D expenditures and evolving approval strategies. We note that of the drug approvals through September 2008 NME's stand the 3rd best chance (13.64%) of the Chemical Types following New formulations (34.85%) and old formulations or indications for existing drugs (22.73%) aka “Other”.

Exhibit 5: Original New Drug Applications Approvals (NDA)



Source: U.S. FDA (excluding generics, tentative approvals, supplemental approvals and new biologics)

In Exhibit 5 the FDA defines “New Formulation” as: “a new drug formulation or new indication for an existing drug formulation”. NME is defined as: “An active ingredient that has never before been marketed in the United States in any form”. These chemical types remain the top two paths to FDA marketing approval. The rising trend of “Other” mainly refers to derivatives of previously approved old chemical types that demonstrate less risk and/or fewer side-effects. **(Double-check this)**

The European Medicines Agency (EMA): E.U. orphan drug status is granted for conditions affecting less than 5 in 10,000 individuals. Since 2000 approximately 530 orphan status applications have been submitted with 486 orphan products registered (91%), 35 inactive and 9 refused. E.U. regulations on Orphan Medicinal Products provides incentives for development including:

- A guaranteed 10-year monopoly on drug sales (applying only to the approved drug use)
- Fee waivers for the marketing approval process
- Community marketing authorization: a centralized marketing authorization procedure that extends EU protocol assistance to all member states. This includes a provision of scientific advice regarding various tests and clinical trials for development.

Clinuvel’s five UV-light related indications:

1. (EPP) Erythropoietic Protoporphyrin (Absolute sun intolerance). Status: European & Australian Phase III, multicentre, randomised, placebo-controlled trials started in April 2007, testing includes seasonal and ambient conditions. Trials complete by 3Q 2009. The trial now has twelve sites having initially commenced with two. We view the increase as a positive, indicating that physicians are keen to provide a successful treatment for their patients where none exists currently. Management’s next step is obtaining Investigational New Drug (IND) status from the FDA to commence U.S. EPP trials by the end of 2008 and starting Phase II U.S. trials.

2. (PLE / PMLE) Polymorphic Light Eruption (Severe sun poisoning). Status: European and Australian Phase III, randomised, double blind, placebo controlled trials began May 2007; CUV will soon evaluate the 1st cohort of more than 40 patients with a 2nd cohort up to 100 patients planned.

3. (AK) Actinic Keratosis and (SCC) Squamous Cell Carcinoma in Organ Transplant Recipients (OTR) (Precursor to skin cancer / non-melanoma skin cancer). Status: European and Australian Phase II multicentre, randomised, double-blind, placebo-controlled trials started October 2007; there are currently two centers in Phase II trials and 12 more enrolling to December 2008. CUV anticipates enrolling more than 150 patients in two hemispheres.

4. (SU) Solar Urticaria: (Acute anaphylactic reaction to sun). Status: Phase II open label trials started June 2008; Clinuvel has obtained ethics approvals in Europe and will conduct trials in three centers with approximately 10 patients severely affected and classified as therapy resistant.

5. (PDT) Phototoxicity associated with Photodynamic Therapy (Photo-sensitivity associated with cancer treatment (oesophagus, gall bladder)). Status: Phase II multicentre, double-blind, placebo controlled European trials began September 2008; approximately 20 patients will be tested across 5 centers.

Business Strategy

Short and mid-term goals: CUV’s short-term goal of marketing exclusivity has been achieved. The company’s stated mid-term goal of building a business with a specific therapeutic focus and increasing value beyond current development is underway. We view management’s consistent delivery of milestones as the key feature of the underlying value of this business, increasing the odds of regulatory approval.

EPP Registration: Management intends to file for EPP registration and marketing authorization in EU/AUS/Swiss by late 2009 – early 2010 and the U.S. market at least twelve months later in 2011. Their strategy aims to:

- Commence and complete European trials
- Demonstrate safety and efficacy in large populations
- Seek orphan status in Europe
- Present this data to the U.S. FDA

The fact that afamelanotide has been tested on significant populations with no adverse safety results and strong efficacy increases the probability of a successful U.S. entry.

Trial status & developments: Management is intent to demonstrate afamelanotide’s long-term human safety. To accomplish this task Clinuvel has successfully finalized and repeated pharmacokinetic studies in 26 patients aimed at maximizing product quality.

Key Milestones:

- 1. Nov 2005:** Clinuvel restructures its management team placing Philippe Wolgen as CEO and Roger Aston as Executive Chair of the Company. Three indications (PLE, AK, EPP) are identified and the firm secures \$10 M in new funding.

2. **February 2006:** Corporate name re-branded "Clinuvel" and drug designated CUV1647. The firm adopts new clinical and corporate strategies to register CUV1647 as a preventative photoprotective in five UV-related skin disorders by demonstrating a strong scientific rationale.
3. **May 2006:** Clinuvel completes its first private share placement of \$5M. Management consults expert academic clinicians in photobiology, dermatology, oncology, transplant medicine and hematology to enhance the odds of success while minimizing the risks of a compromised clinical program design.
4. **June 2006:** Phase II trial photoprotection through increased melanin density, Clinuvel increases CUV1647's potential by expanding indications from three to four registration pathways (SU).
5. **August 2006:** Phase II PLE results successfully meet endpoints.
6. **September 2006:** Phase II EPP trials begins.
7. **November 2006:** Clinuvel raises A\$35.2M via rights issue and private placement.
8. **January 2007:** Phase III PLE receives ethics approval.
9. **February 2007:** Phase II EPP results meet endpoints.
10. **May 2007:** Successful share placement results in A\$25M share placement in Australia and overseas.
11. **July 2007:** Selection of final dosage for development (16mg).
12. **October 2007:** Phase II AK/SCC in OTP commences.
13. **March 2008:** ODD granted by EMEA.
14. **April 2008:** ODD granted by Swissmedic.
15. **May 2008:** CUV1647 granted the generic name "Afamelanotide" from the World Health Organization.
16. **June 2008:** Phase II Solar Urticaria trial receives approval.
17. **July 2008:** Orphan Drug Designation obtained from FDA.
18. **September 2008:** Phase II PDT trial commences.

Management:

Point 1: We view CUV's management team as the primary driver in the R&D schedule. R&D expenditures totaling A\$30M average out to a 16:1 market potential of approximately A\$500M, largely due to an expansion in indications. Their relative success in advancing the clinical program stems from:

- The ability to cultivate effective relationships between research, production and sales
- Consistently fund research efforts
- Meeting strategic targets

These factors demonstrate their effectiveness in striking this balance while maintaining a competitive advantage over rival biotech teams.

Point 2: No "one-trick" pony: Clinuvel's stated intent to develop products lines beyond the current line-up is evidenced by afamelanotide's expansion to five indications, while plans to further developments ensure growth occurs in a series of continuous spurts. By branching out from their expertise in UV-related skin disorders, Clinuvel has capitalized on research devoted to products already within the scope of company activities.

Going forward:

CUV's challenge lies in managing afamelanotide's biological complexity. Since some UV-related disorders are most acute in the spring and summer, timing clinical trials to maximize this 6-month efficacy window in each hemisphere poses unique challenges. Although first-in-class drugs have advantages, the necessary time, experience and data required to execute sufficient clinical trials increases as well.

Other challenges lie in the expertise of administering the five indications. To mitigate this challenge, CUV has enlisted the support of prominent scientists and clinicians in the relevant medical specialties including haematology, dermatology, oncology and organ transplant. This provides multiple global markets for Clinuvel.

Financial health:

Cash reserves: CUV has the cash reserves to fund U.S. EPP trials; as of October 28, 2008 Clinuvel's cash position was A\$50.8 M representing 69.8% of the current A\$72.76 M market capitalization based on the share price of A\$0.24. Liquidity also remains intact (**average daily volume ~170,000**). Cash reserves at the current burn rate can support clinical trials through the end of 2009, allowing approval time for key indications.

Burn rate: The monthly burn rate remains under A\$1 M per month and is expected to increase to A\$1.7 M USD by the end of 2009 as clinical trial costs rise. The average burn rate per month in 2005 was A\$1.03M, A\$0.97M in 2006 and A\$1.29M in 2007 (totaling A\$15.48M for the year). Given the 2007 average monthly burn rate the firm has 3.7 years to bring their drug to market, excluding additional fund raising. Clinuvel plan to have registered its product and have engaged in partnering by then.

Clinical trial costs: Oncology trials cost from A\$3000 - A\$9000 per patient with 50-70 patients per trial. Costs may vary depending on geography and indication.

Implants: CUV forecasts US\$300-1000 per implant per patient 6 times a year for EPP and PLE. Management has also assumed penetration for sales, price, incidents and so forth to estimate their costs and potential revenues.

Based on an examination of pharmaceutical company income tax returns the Consumer Project on Technology report says companies reported average expenses of \$8 M on clinical trials for each new drug to treat rare diseases (orphan drugs). Ref CPT 2001.

Valuation:

	Potential Peak Sales (\$M)	Probability	Probability Weighted Sales	NPV*
Phase III				
PLE	40	50%	20	
EPP	25	50%	12.5	
Phase II				
SCC/AK	240	30%	72	
SU	12	30%	3.6	
Other	200	15%	30	
Total	517		138.1	68.7
COGS				10.3
SG&A				15.4
EBIT				42.9
Tax (35%)				15.0
Net				27.9
EPS				0.1
P/E				3.7
Industry P/E (BBG World Biotech Index)				31.51

* NPV is total probability weighted sales discounted to present at 15% discount rate assuming peak sales are reached in 5 years

Valuation: On a relative basis Clinuvel's share price remains significantly undervalued. Biotechnology is a defensive growth industry largely uncorrelated to the global economy. Clinuvel's P/E continues to trade at a heavy discount to the BBG World Biotech Index, however, recent milestones advances and trials have not reflected in the share price. As mentioned previously this disconnect has been associated with distressed shareholder activity and wholly unrelated to CUV's clinical trial progress. The share price is currently supported around the A\$0.25 level creating a bargain opportunity. Events such as filing IND in the United States should boost shares in 2008, with the firm well supported financially to complete Phase III trials for PLE and EPP in Europe.

Conclusion: The FDA approach examines the risk-benefit analysis first and, since afamelanotide treats a carcinogenic condition with a first-in-class drug, we expect the odds of market approval to be above average. The FDA weighs this consideration very carefully. Since afamelanotide treats clinical indications we expect the drug to receive additional consideration vs. cosmetic applications.

Finally Clinuvel has successfully laid a foundation to create value through advancing afamelanotide development in the last two-and-a half years. Investors should look beyond the current economic downturn and consider the fundamental outlook for biotechnology as well as the track record of the team leading the clinical trials.

Exhibit: Financial Summary of Clinuvel Pharmaceuticals 2007 – 2008

Income statement				
	2008 S2	2008 S1	2007 S2	2007 S1
Revenue	N/A	2.15	0.02	0.26
- SG&A	10.29	8.64	6.81	4.92
Operating profit (loss)	-12.44	-6.48	-6.79	-4.66
- Net Non-Operating Loss	-2.11	0.00	-1.54	-0.73
Net profit (loss)	-8.17	-6.48	-5.25	-3.93
- Total Cash Preferred Dividends	0.00	0.00	0.00	0.00
- Other Adjustments	0.00	0.00	0.00	0.00
Net Inc Avail to Com. Shrhldrs	-8.17	-6.48	-5.25	-3.93
Basic EPS	-0.03	-0.02	-0.02	-0.02
Basic Weighted Avg Shares	305.51	308.64	278.15	218.29
Diluted EPS	N/A	-0.02	-0.02	-0.02

Reference items				
	2008 S2	2008 S1	2007 S2	2007 S1
EBITDA	-12.05	-6.03	-6.39	-4.15
Operating Margin	N/A	-300.83	-32866.58	-1772.76
Profit Margin	N/A	-300.83	-25396.50	-1496.00
Sales per Employee	N/A	N/A	1.29	N/A
Sales Growth	N/A	720.31	-94.51	-30.59
Basic EPS Before XO Growth	-43.62	-16.67	50.50	32.80
Interest Income	N/A	0.00	1.54	0.70
Research & Development Expense	N/A	0.00	1.03	2.22

Cash Flow Statement				
	2008 S2	2008 S1	2007 S2	2007 S1
+ Net Income	-8.17	-6.48	-5.25	-3.93
+ Depreciation & Amortization	0.40	0.45	0.40	0.51
Cash From Operating Activities	-3.55	-3.63	-3.53	-4.65
+ Capital Expenditures	-0.14	-0.08	-0.09	-0.09
+ Increase in Investments	0.00	-21.97	-8.75	-17.73
+ Decrease in Investments	3.08	18.36	0.00	0.00
+ Other Investing Activities	0.00	N/A	0.10	0.09
Cash From Investing Activities	2.94	-3.68	-8.74	-17.73
+ Increase in Capital Stocks	0.00	N/A	25.82	34.20
+ Other Financing Activities	-0.06	-0.11	-0.13	0.00
Cash From Financing Activities	-0.06	-0.11	25.69	34.20
Net Changes in Cash	-0.67	-7.42	13.42	11.81

Reference Items				
	2008 S2	2008 S1	2007 S2	2007 S1
EBITDA	-12.05	-6.03	-6.39	-4.15
Interest Received	1.93	2.05	1.38	0.63
Free Cash Flow	-3.70	-3.71	-3.62	-4.74
FCF per Basic Share	-0.01	-0.01	-0.01	-0.02

Balance Sheet				
	2008 S2	2008 S1	2007 S2	2007 S1
Assets				
+ Cash & Near Cash Items	25.75	26.42	33.84	20.42
+ Short-Term Investments	0.00	0.00	0.00	19.76
+ Accounts & Notes Rec.	0.00	0.30	0.00	0.35
+ Inventories	0.00	0.00	0.00	0.08
+ Other Current Assets	27.37	32.77	31.47	2.13
Total Current Assets	53.12	59.49	65.32	42.74
+ Gross Fixed Assets	0.71	0.00	0.60	N/A
- Accumulated Depreciation	0.27	0.00	0.27	N/A
+ Net Fixed Assets	0.43	0.42	0.33	0.31
+ Other Long-Term Assets	1.42	1.80	2.18	2.60
Total Long-Term Assets	1.85	2.22	2.51	2.92
Total Assets	54.97	61.71	67.82	45.66
Liab. & Shareholders' Equity				
+ Accounts Payable	0.73	2.80	1.60	1.28
+ Other Short-Term Liabilities	2.41	0.10	0.83	0.06
Total Current Liabilities	3.15	2.90	2.43	1.34
+ Other Long-Term Liabilities	0.01	0.00	0.00	0.02
Total Long-Term Liabilities	0.01	0.00	0.00	0.02
Total Liabilities	3.16	2.90	2.43	1.36
+ Share Capital & APIC	114.90	112.81	114.45	86.91
+ Retained Earn. & Other Eq.	-63.09	-54.00	-49.06	-42.61
Total Shareholders' Equity	51.81	58.81	65.39	44.30
Total Liabilities & Equity	54.97	61.71	67.82	45.66

Reference Items				
	2008 S2	2008 S1	2007 S2	2007 S1
Shares Outstanding	303.15	302.15	302.15	277.21
Options Out. at Period End	3.27	N/A	N/A	N/A
Book Value per Share	0.17	0.20	0.22	0.16
Net Debt to Equity	-49.70	-44.92	-51.75	N/A
Current Ratio	16.88	20.54	26.90	31.91
Pure Retained Earnings	-63.17	-55.55	-49.07	-43.81

Relative Values				
	6/30/2008	12/31/2007	6/29/2007	12/29/2006
Price to Book	1.81	1.77	4.25	4.54
Return on Equity	-25.01	-22.75	-23.12	-34.32
Net Non-Operating Loss	-2.11	0.00	-1.54	-0.73
EBIT	-12.44	-6.48	-6.79	-4.66

Source: Bloomberg

Important Disclosures:

Louis Capital Markets (Hong Kong) LTD. does not make markets in any of these equities

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I, D. Gorton, certify that the views expressed in this research reflect my personal views about the subject securities and that no part of my compensation is directly or indirectly related to the specific recommendation or views contained in this report.

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