

In this edition...

It's a turbulent time for equity markets, and biotech stocks have not been immune to the current sell down. Company's such as Prima Biomed and Cytopia are making exceptional progress and this is not being reflected by the market. However, the sector has never been in such a fundamentally strong position, with at least 14 companies either in or approaching (next 12 months) pivotal trials. In this edition we profile two such companies with attractive investment features, Starpharma Holdings and Avexa.

We also introduce readers to Giaconda, which listed in September 2005.

The editors

Companies covered: AVX, GIA, SPL

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.0%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (from 5 May '06)	-8.6%
Cumulative Gain	155.0%
Average Annual Gain	22.5%

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Bioshares

16 June 2006

Edition 171

Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies.

Starpharma's VivaGel Delivers Added Bonus

Commercialisation of Starpharma Holdings' (SPL: 42 cents) dendrimer technology is on track to move to a pivotal phase in the next 12 months as the company plans for two population-based efficacy studies in 2007. If the company is successful, it may be in a position to file two products for regulatory approval in 2008 that will mark the significant transformation of this biotechnology company.

Contraceptive effect

This week, the company had a surprising positive development to announce regarding its lead product, VivaGel, a vaginal microbicide being trialed for the prevention of sexually transmitted diseases. In an animal model, the product was shown to have contraceptive activity, reducing the conception rate by up to 95%.

Although this figure is not high enough for Vivagel to be marketed as a stand alone contraceptive, the additional potential marketing claim could be very valuable in improving usage rates of the microbicide either as a stand alone product or used as a condom coating.

In the second half of this year, Starpharma will begin expanded safety studies in healthy volunteers for its VivaGel product in Kenya, the US and Australia. It's anticipated these trials will be completed early next year. Initial Phase I safety studies in 36 volunteers were successfully completed at the end of 2004.

Major studies in 2007

Next year, the company is confident it will commence major efficacy studies with its single use VivaGel applicator product for the prevention of HIV and genital herpes (HSV-2). These studies will be conducted in Sub-Saharan Africa and also potentially in the US and Australia. The trials may involve in excess of 1,000 people who will likely trial VivaGel for 12 months. Starpharma has set itself aggressive timelines for completing these studies – by mid 2008 – with the products to be submitted for regulatory review by the end of 2008. To fund the completion of this pivotal efficacy study, the company may need to raise further funds or seek further collaborations or partnerships.

Using the same active component, Starpharma intends to develop three products. The first would be a single use applicator product for the prevention of HIV and HSV-2 in developing countries. The second product would be for the prevention of HSV-2 primarily in developed countries. And the third product would be for use as a condom coating. Development of this product would require an early collaboration with a major condom manufacturer, which the company is seeking.

Cont'd over

Whether VivaGel is to be used as a prophylactic treatment for the prevention of HIV or HSV-2, the added potential claim for the product as having contraceptive properties would be an obvious additional feature that would improve usage rates.

Summary

Starpharma is evolving into a more commercially focused business as key clinical milestones approach for the company. In the past the company could be criticised for the delay in moving its preclinical programs forward and lacking in external commercial validation. Over the next 12 months the company will be judged on its ability to progress its critical program and over the next two years on its ability to form commercial partnerships to bring its products to market.

At current prices, Starpharma is a very attractive investment to consider. The company is capitalised at \$62 million with \$15.4 million in cash at the end of March this year. It also owns a 33% stake in Dendritic Nanotechnologies in the US and has been awarded two important grants from the NIH, one for US\$20.3 million for its HIV prevention program. The other, awarded in April this year, was for an undisclosed amount and will fund a clinical trial for the prevention of HSV-2.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

How Bioshares Rates Stocks

For the purpose of valuation, *Bioshares* divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, *Bioshares* grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

- Buy** CMP is 20% < Fair Value
 - Accumulate** CMP is 10% < Fair Value
 - Hold** Value = CMP
 - Lighten** CMP is 10% > Fair Value
 - Sell** CMP is 20% > Fair Value
- (CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A

These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B

These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C

These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

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