



26 August 2008

Biota Holdings Limited (BTA)

Speculative Buy

FY08 Results Provide No Real Surprise; New Territory Deal with AstraZeneca

\$0.72

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FY08 NPAT loss of \$6.5m, a significant deterioration from \$20.2m NPAT for FY07, and 7.1% ahead of our expectations

Relenza™ revenues of \$20.5m, down 48.5% on pcp and in line with our estimates.

Litigation expenses of \$21.8m, up 110% on pcp, and in line with estimates.

Cash balance of \$60.2m, slightly better than expectations.

Indicative net gain on settlement of litigation during FY09 of \$12m versus our estimates of \$10.5m.

New US\$3.5m RSV technology license fee granted to AstraZeneca for Asia-Pacific and South East Asian markets.

Major board changes with Chairman and Non-Exec Director set to retire during FY09; share buy-back to re-commence at end of Aug.

Summary

Market Capitalisation (M)	\$130.4
Share Price	\$0.72
Shares on Issue (M)	181.3
52 Week High	\$1.82
52 Week Low	\$0.62
Valuation Per Share (fully diluted)	\$1.80
12 Month Price Target	\$1.80
Cash (M) as at 30/06/08	\$60.2

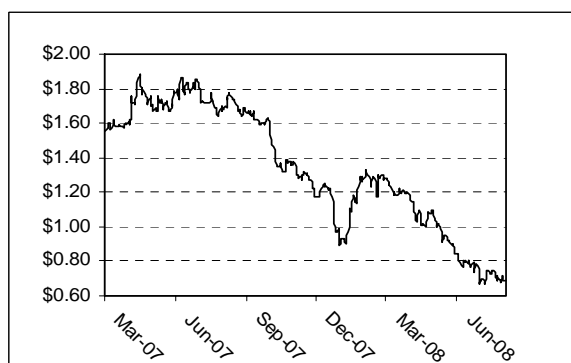
Key Financials (A\$'000)

Year End	FY08 Actual	FY09 Est.	FY10 Est.
Relenza Royalties	20,544	22,885	10,198
Partnering Income*	5,871	4,496	22,933
Total Revenue	44,989	41,519	41,574
Total Op. Expenses	(41,397)	(18,283)	(15,900)
R&D Expenses	(10,287)	(15,060)	(11,333)
EBITDA	(9,897)	15,815	9,740
Normalised NPAT	8,760	3,578	12,048
Adj. NPAT	(6,489)	17,112	12,048
Adj. EPS (c)	(3.5)	9.7	6.8
Reported EPS (c)	(3.5)	9.7	6.8
Adj. PE Ratio (x)	n/a	7.4	10.6

* Upfront/Milestones only (ex-R&D income)

Our View

- While FY08 will be a year to forget for Biota, developmentally, the Company's pipeline remains world-class, validated and continues to forge ahead. The Company is well capitalised with 3x drugs in clinical development with several partnering opportunities available. While Relenza™ sales has been difficult to forecast owing to lumpiness of government stockpiling, we continue to believe the global anti-viral stockpiling market has become more favourable for Relenza™. We believe GSK will target the US\$1.0b replenishment market (i.e. 5 years from primary stockpiling), in parallel to the 14.6m and 29.35m treatments likely to be offer from new UK and Japan government orders, particularly. However, as revenue takers, Biota is completely reliant on GSK delivering, even after the litigation settlement, which does not alter the primary license agreement.
- Despite the volatile FY08 and price underperformance, Biota's pipeline remains high quality and we believe undervalued by the market, particularly given we value Relenza™ alone at 51 cps, with cash backing of 33 cps at the FY. We are forecasting an FY09 NPAT of \$17.1m, a 13.1% reduction from previous forecasts on Relenza™ royalties of \$22.9m (previous \$25.0m). Due to the license agreement with GSK, which provides cash payments to Biota at the end of the FY, we again expect reasonably heavy cash utilisation during 1H09, given the estimated \$10m in costs attributable to the HRV Phase 2. We maintain our Speculative Buy recommendation, and have reduced our price target by 2.7% to \$1.80.

Share Price Graph (A\$)

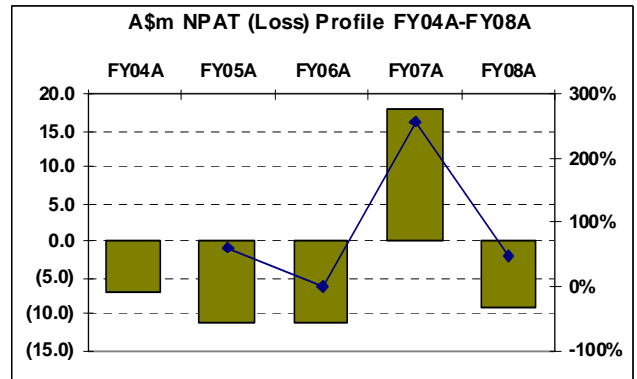
FY08 Overview

Significant headwinds during FY08.

FY08 NPAT loss of \$6.5m, better than expectations.

Biota has faced significant headwinds during FY08, owing to the much softer than anticipated Relenza™ royalty stream, a major blow out in litigation expense against GSK and subsequent commercial settlement that fell well short of expectations. As a result, share price performance during FY08 has been poor.

Biota has reported an FY08 NPAT loss of \$6.5m, a significant turnaround on the NPAT of \$20.2m in FY07 (see across). The result was adversely effected by a much softer than anticipated 2H for Relenza™ royalties and litigation expenses that were \$5.8m higher than original guidance provided. However, both royalties and a blow out in litigation costs were largely anticipated by the market, and from that perspective, the NPAT loss was not unexpected. We note from our own forecasts that the result was 7.1% ahead of expectations, though benefited from an income tax credit of \$2.8m.

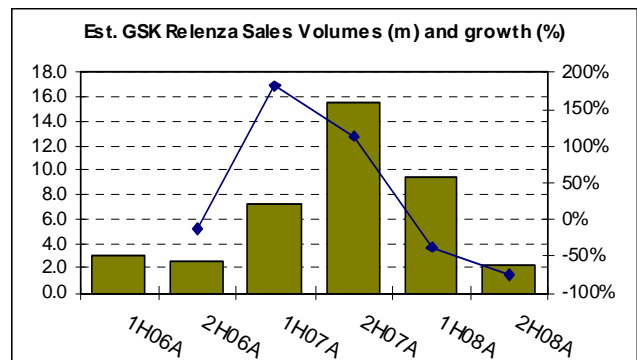


Source: Biota

Relenza™ – Slowdown in primary stockpiling evident

Slowdown in new Relenza™ stockpiling orders evident during FY08.

The FY08 NPAT loss was primarily driven by lower than expected royalties on sales of the influenza drug Relenza™ by GlaxoSmithKline (GSK). GSK has significantly expanded capacity since the beginning of CY06 when capacity was just 1m treatment courses. However, despite an installed capacity we estimate to be 25-30m, on our estimates GSK were only able to sell 11.7m treatments of Relenza™ during FY08, indicating sufficient excess capacity is available to respond to new major orders.

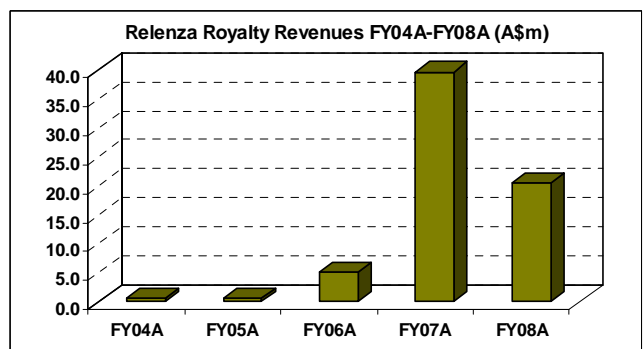


Source: TC estimates

Surplus capacity exists.

Recognised royalties of \$20.5m, down 48.5% on pcp.

Biota's recognised royalties were down 48.5% on pcp to \$20.5m (see across), driven largely by completed or partial fulfilment of existing orders (Germany, France, Hong Kong, Australia and the US). We believe seasonal sales significantly increased in FY09, emanating from Japan. As discussed previously, we believe there are a number of new stockpiling opportunities that exist for Relenza™ in the UK, Japan and the US. Moreover, we are beginning to see the initial replenishment market appear for stockpiled anti-virals, given the 5 year shelf life. Advantageously, the majority of early stockpiling was Tamiflu® based, potentially allowing GSK to capture part of that market estimated to be up to US\$1.0b per year. The installed stockpile is estimated to be worth up to US\$6.5b.



Source: Biota reports

UK, Japan and US orders remain key to FY09 sales.

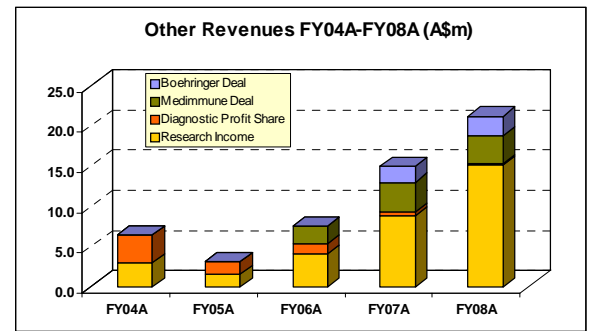
Replacement market emerging.

FY08: Other Revenue Segments

Declining sales from FLU OIA continue.

\$5.9m in recognised upfront/milestone payments from partners

Profit share from sales of the influenza diagnostic FLU OIA® continued to decline to \$0.3 million, which was down significantly on pcp and within estimates. The product has clearly entered the decline state of the product life cycle, and as such we have reduced our forward profit share progressively down in FY09 and FY10. The Company also recognised a further \$5.9 million resulting from milestone payments from MedImmune (now part of AstraZeneca) and residual amortisation from Boehringer Ingelheim upfront payments. Research revenues, comprising government grants and payments made by licensees to fund development work under the license continued to grow strongly in FY08, to approximately \$15m. We continue to favour this model, as all costs associated with development of HCV, LANI, FLUNET and RSV are fully recovered, with a small margin to Biota in some instances.



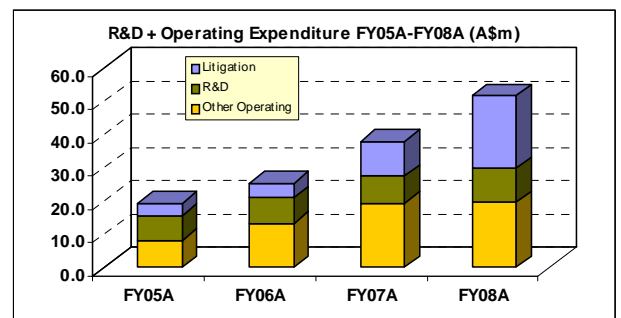
Source: Biota

FY08 Operating Expenditure and Cash Flow Analysis

Operating expenditure and R&D up 36.3% on pcp.

Basic R&D up 25.5% on pcp.

Excluding depreciation and amortisation associated with the Relenza™ sub royalty buy-back, operating and R&D expenditure increased 36.3% on FY07, which was principally the result of a blow out in litigation costs to \$21.8m (FY07:\$10.4m). Excluding the impact of litigation, operating expenditures were flat versus pcp. As discussed, in the case of the RSV and HCV programs; such expenditure is offset by AstraZeneca and Boehringer Ingelheim or grants (LANI, FLUNET). Therefore, only Biota's HRV program (entering Phase 2 during FY08) and early basic research remain unfunded. More basic R&D expenditure increased 25.5% during FY08 versus FY07, though a decent component of this expense line we believe relates to the partnered FLUNET and HCV programs.

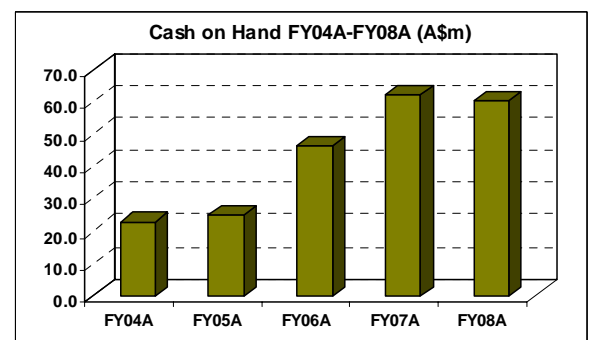


Source: Biota

Cash on hand of \$60.2m.

OCF of \$4.8m.

Cash on hand decreased by 3.2% on pcp to \$60.2 million, despite the poor Relenza™ FY, and significant increases in litigation expenditure. Cash flows attributable to operations was \$4.8m, with the Company recording Capex of \$3.8m, mostly relating to the commissioning of new laboratory space (\$1.5m) and associated plant and equipment purchases (\$2.1m). We believe forward Capex will closely reflect depreciation charge. With respect to capital returns to shareholders, under the Company's announced buy-back, approximately \$3.0m worth of stock was bought and cancelled by the Company (representing 2.57m shares). The Company announced the buy-back will re-commence on August 28th, where up to an additional 6.6m shares may be re-purchased by the Company to the 5% of issued capital level under the original terms.



Source: Biota

Re-commencement of buy-back suggestive of confidence in business model.

Assignment/Extension of RSV Agreement with AstraZeneca

Assignment of license from MedImmune to AstraZeneca.

Biota has also announced the 2005 respiratory syncytial virus (RSV) license deal with MedImmune, which was subsequently acquired by AstraZeneca has been assigned to AstraZeneca. Under the agreement, all existing milestone and royalty payments are preserved by Biota and the Company will extend the current R&D program. Additional territories have also been secured by AstraZeneca, and include several Asian and Pacific domiciles (specifically Australia, New Zealand, China, South East Asia, India and Pakistan) previously not contemplated under the US\$112.5m deal.

New territories granted license by Biota for US\$3.5m.

The Company has assigned those rights and additional territories to AstraZeneca for US\$3.5m, which we expected to be amortised over 12 months. We believe Biota will recognise A\$3.4m in FY09, with a further A\$0.6m in FY10. Cash payment is expected within 60 days.

Collected US\$11.5m to date under license.

We believe the deal makes sense, as Biota would eventually need to establish a regional sales force to market and sell BTA9881, a skill set it does not possess, let alone the costs of doing so. In contrast, AstraZeneca possess all the necessary sales force who deal with RSV by virtue of its acquisition of MedImmune, which sold the blockbuster RSV drug, Synagis[®]. The deal to date has provided the following cash payments to Biota: Upfront payment: US\$5m; Milestone payment (Phase 1 initiation): US\$3m and Assignment payment: US\$3.5m. AstraZeneca is currently conducting multiple Phase 1 trials of the lead drug candidate BTA9881. We expect results during 1H CY09.

Board Refreshment at Chairman, Non-Exec Level

Chairman and 1 non-exec director to retire.

Biota also announced within the annual report that its long serving Chairman, John Grant will retire from the board during FY09, having served as Chairman for the past 7 years. A second long standing non-executive director, Barbara Gibson has also indicated she will retire at the end of CY08. We consider board refreshment as an imperative for ASX-listed biotechnology companies; given most evolve different business models over time that requires new skills sets. The Company has indicated an external search for the new Chairman has commenced.

One New Program in Human CMV Initiated

New program to develop drugs targeting CMV.

Biota announced at their results that the Company has entered into a cytomegalovirus (CMV) research program. CMV is a member of the herpes virus family, with up to 50-80% of US adults infected. As with all herpes viruses, in perfectly healthy individuals, the virus causes little or no damage, as it remains controlled by the host's immune system. However, in immune compromised patients (e.g. transplant patients, HIV, cancer) the virus can cause significant mortality and morbidity. Viral transmission remains prevalent in young children and day care centres. CMV is a major cause of retinitis (blindness) in immune compromised patients.

Numerous CMV treatments approved, with mixed success commercially.

The only approved IVIG treatment for CMV infection is Cytogam[®], a product originally marketed by MedImmune, then sold to ZLB Behring (acquired by CSL (ASX:CSL)) for US\$120m in cash. Ganciclovir, marketed as Cytovene[®] and Cymevene[®] (Roche) is used to treat infection with CMV in combination with Valcyte[®]. Roche recorded combined sales of CHF 225 million in 2005 for these drugs.

We note that on the prescribing information the label includes a risk of anaemia, cancer and birth defects using oral Valcyte[®], which is a pro-drug of ganciclovir. Vitravene[®] (ISIS Pharmaceuticals) has negligible sales in CMV. Given the very early stage of this program for Biota, we do not ascribe a value to it.

HCV-NN program to advance.

The Company has also indicated it will develop up a portfolio of non-nucleoside hepatitis C (HCV-NN) compounds that were not part of the original US\$102m Boehringer Ingelheim license deal. Those compounds were so-called nucleoside analogues that also block viral replication inside cells. The HCV space remains a very attractive partnering opportunity for Biota, with a number of HCV-specific deals executed since late CY04 (see below). We note Biota's deal with BI was also struck at the pre-clinical development stage, which given

the vagaries of clinical trials in HCV, appears to be the norm for biotechnology companies, not the exception.

HCV - Recent Technology Deals

Date	Licensor	Licensee	Drug	Stage at Execution	Upfront (US\$m)	Milestones (US\$m)	Total Value (US\$m)
May-08	Medivir	J&J	TCM435350	Phase 2	7.5	426.4	433.9
Jan-08	Tacere	Pfizer	TT-033	Pre-clinical	n/a	145	145
Dec-06	Enanta	Abbott	n/a	Pre-clinical	57	250	307
Nov-06	Biota	Boehringer	n/a	Pre-clinical	4	98	102
Oct-06	Intermune	Roche	ITMN-191	Phase 1	60	470	530
Jun-06	Vertex Pharma	Janssen Pharma (J&J)	VX-950	Phase 2	165.0	380.0	545.0
Jun-06	GeneLabs	Novartis	various	Pre-clinical	12.5	182.5	195.0
Jun-06	Human Genome Sciences	Novartis	Albuzeron	Phase 2	45.0	507.5	552.5
Mar-06	PTC Therapeutics	Schering-Plough	various	Pre-clinical	12.0	188.0	200.0
Nov-04	Achillion	Gilead	various	Pre-clinical	5.0	105.0	110.0
Nov-04	Medivir	Tibotec (J&J)	various	Pre-clinical	8.0	73.0	81.0

Source: Recombinant Capital

Major partnering deals for HCV-NN possible.

Second milestone payment from AstraZeneca may fall into FY10.

Increased R&D spend likely.

At risk component to our Relenza™ forecasts.

Changes to Forecasts

We had previously forecast a single milestone payment of US\$4.0m by AstraZeneca to Biota during FY09 (though the actual milestone is subject to confidentiality), which we feel would be associated with a Phase 2 study of efficacy for BTA9881. However, based on guidance and the multiple Phase 1 studies currently being undertaken by AstraZeneca, we believe any milestone payment is likely to fall into FY10 (though only just). Hence this assumption has been removed from our forecasts. This reduction has been partially offset by the US\$3.5m payment by AstraZeneca to Biota for new territories.

As a result of the two additional pre-clinical programs initiated by Biota in HCV-NN and CMV, we have increased our FY09 R&D assumptions by 23.7% to \$15.0m.

We believe the "at risk" revenues for Relenza™ lie in our assumptions that at least one major stockpiling order will eventuate during FY09, likely out of the UK first, which comprises \$14.6m of our revenue assumptions. We believe approximately \$6.2m will be received from final fulfilment of the US order by Dec 08, with a modest contribution from seasonal sales in Japan. If one or more orders are not forthcoming during FY09, a significant impact on profitability can be expected.

The major changes to our forward assumptions are shown below.

Major Changes to Valuation Model

	FY09E			FY10E		
	Previous	Revised	Change	Previous	Revised	Change
Relenza Volumes (m)	14.3	13.1	-8.6%	5.8	5.8	0.5%
Relenza Royalties (A\$m)	25.0	22.9	-8.5%	10.2	10.2	0.0%
Reported NPAT	19.7	17.1	-13.1%	12.9	12.0	-6.6%
NPAT adjusted (A\$m)	19.7	17.1	-13.1%	12.9	12.0	-6.6%
EPS adjusted (c)	11.4	9.7	-15.0%	7.4	6.8	-7.8%

Source: Taylor Collison estimates

Outlook

Recent clearing of the decks and a positive start to FY09.

While we feel the decks have been largely cleared at the end of FY08, the Company will need to deliver for shareholders in FY09. Indeed, FY09 has commenced strongly for the Company with a major Phase 2 success for LANI, Phase 2 initiation for HRV and yesterday's announcement of a further US\$3.5m payment from AstraZeneca under the RSV license agreement. Biota has also announced several director retirements, which we feel is well overdue, given the transition of the Company over the last 4 years.

Japanese govt has applied for US\$535m in pandemic funding for FY09.

We believe the early signs are strong for Relenza™ during FY09 and into FY10 as the Japanese health ministry very recently announced a 59.8 billion Yen (US\$535m) budget for 2009 for pandemic influenza preparation, up close to ten fold on 2008. The 2009 fiscal year commences on April 1st. Moreover, the UK government has formally requested tenders from pharmaceutical companies to contribute to the nation's doubling of its anti-viral stockpile. Though no formal contracts have been issued, we note on our FY09 royalty estimates (A\$22.9m) an assumption that at least one major stockpiling order will be forthcoming.

The Company does have a relatively robust milestone schedule for the remainder of CY08 and CY09 (see below). The swing factors to milestones remain: (1) additional major Relenza™ stockpiling/sales orders; (2) HRV license deal; (3) LANI license deal.

Biota 12 Month Milestone Chart	Timing
Completion of RSV Phase 1 Studies	1H CY09
Commencement of RSV Phase 2 Studies	4Q CY09
Completion of multiple LANI Phase 1 (UK) studies	1H CY09
Completion of HRV Phase 2a Study	4Q CY08 / 1Q CY09
Commencement of Daiichi Japanese Phase 3 LANI Study	4Q CY08
Completion of Daiichi Japanese Phase 3 LANI Study	2Q/3Q CY09

Source: Taylor Collison estimates

Maintain Speculative Buy.

Despite the volatile FY08 and price underperformance, Biota's pipeline remains high quality and we believe undervalued by the market, particularly given we value Relenza™ alone at 51 cps, with cash backing of 33 cps at the FY. We are forecasting an FY09 NPAT of \$17.1m, a 13.1% reduction from previous forecasts on Relenza™ royalties of \$22.9m (previous \$25.0m). Due to the license agreement with GSK, which provides cash payments to Biota at the end of the FY, we again expect reasonably heavy cash utilisation during 1H09, given the estimated \$10m in costs attributable to the HRV Phase 2. We maintain our Speculative Buy recommendation, and have reduced our price target by 2.7% to \$1.80.

Biota Holdings Limited - Summary of Forecasts

BTA \$0.72

PROFIT & LOSS SUMMARY (A\$'000)					
	FY06A	FY07A	FY08A	FY09E	FY10E
Relenza Royalties	5,189	39,789	20,544	22,885	10,198
Partnering (License) Income	2,243	5,726	5,871	4,496	22,933
Research income (inc Grants)	4,021	8,740	15,042	9,560	3,633
Total Revenue	14,967	57,300	44,989	41,519	41,574
<i>Growth (pcp)</i>	196.4%	282.8%	-21.5%	-7.7%	0.1%
Net Gain on GSK Settlement	0	0	0	12,000	0
Net Operating Revenue	(2,635)	27,576	3,592	35,236	25,674
R&D Expenses	(7,685)	(8,198)	(10,287)	(15,060)	(11,333)
EBITDA	(12,576)	16,871	(9,897)	15,815	9,740
Depreciation	(986)	(1,228)	(933)	(1,509)	(1,599)
Amortisation	0	(317)	(1,681)	(1,556)	(693)
EBIT	(13,562)	15,326	(12,511)	12,750	7,447
Net Interest	2,256	2,507	3,202	4,362	4,601
Pre-Tax Profit	(11,306)	17,833	(9,309)	17,112	12,048
Tax Expense	0	2,347	2,820	0	0
Minorities	0	0	0	0	0
NPAT Normalised *	(4,836)	19,871	8,760	3,578	12,048
NPAT Adj.	(11,306)	20,180	(6,489)	17,112	12,048
<i>Growth (pcp)</i>	n/a	n/a	-132.2%	-363.7%	-29.6%
Net Adjustments	0	0	0	0	0
Reported Profit	(11,306)	20,180	(6,489)	17,112	12,048

BALANCE SHEET SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Cash	46,183	62,156	60,164	63,457	73,455
Receivables	5,864	9,350	4,270	6,228	6,236
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	52,047	71,506	64,434	69,685	79,691
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	5,512	5,152	7,543	7,995	7,896
Intangibles	0	13,447	12,113	10,557	9,863
Deferred Tax Assets	0	2,349	5,168	5,168	5,168
Other	0	0	0	0	0
Total Non-Current Assets	5,512	20,948	24,824	23,720	22,928
TOTAL ASSETS	57,559	92,454	89,258	93,405	102,619
Accounts Payable	4,034	6,004	12,023	4,152	4,157
Borrowings	0	0	0	0	0
Provisions	516	1,097	1,122	1,122	1,122
Other (Inc Def Rev)	6,011	6,457	6,059	3,533	0
Total Current Liab	10,561	13,558	19,204	8,807	5,279
Borrowings	0	0	0	0	0
Provisions	100	6,339	6,622	6,622	6,622
Other (Inc Def Rev)	0	1,022	0	0	0
Total Non-Current Liab	100	7,361	6,754	6,754	6,754
TOTAL LIABILITIES	10,661	20,919	25,958	15,561	12,033
TOTAL EQUITY	46,898	71,535	63,300	77,844	90,586

PER SHARE DATA					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Adjusted EPS (c)	(6.9)	11.2	(3.5)	9.7	6.8
<i>Growth (pcp)</i>	n/a	n/a	-131.7%	-373.2%	-29.6%
Reported EPS (c)	(6.9)	11.2	(3.5)	9.7	6.8
<i>Growth (pcp)</i>	n/a	n/a	-131.7%	-373.2%	-29.6%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(5.4)	6.9	2.4	11.3	42.6
NTA per share (c)	28.5	32.2	28.0	56.2	100.7

VALUATION MULTIPLES					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Adjusted PE Ratio (x)*	n/a	6.4	-20.3	7.4	10.6
PE Ratio (x)	n/a	6.4	n/a	7.4	10.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	300.0%
EV/EBITDA (x)	(14.5)	9.8	(17.0)	10.4	15.9
EV/EBIT (x)	(13.4)	10.8	(13.4)	12.9	20.8

CAPITAL RAISING ASSUMPTIONS					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
Shares Issued (m)	41.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.76	0.0	0.0	0.0	0.0
Cash Raised (A\$m)	31.0	0.0	0.0	0.0	0.0

KEY RATIOS					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
EBITD/Sales Margin %	-84.0%	29.4%	-22.0%	38.1%	23.4%
EBIT/Sales Margin %	-90.6%	26.7%	-27.8%	30.7%	17.9%
Current ratio (x)	4.9	5.3	3.4	7.9	15.1
Net Debt : Equity (%)	-98.5%	-86.9%	-94.8%	-81.3%	-80.9%
ROE (%)	-24.1%	34.1%	-9.6%	24.2%	14.3%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

CASH FLOW SUMMARY (A\$'000)					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
EBIT (excl Abs/Extr)	(13,562)	15,326	(12,511)	12,750	7,447
Add: Depreciation	986	1,228	933	1,509	1,599
Amortisation	0	317	1,681	1,556	693
Change in Pay.	863	1,970	6,019	(7,871)	5
Less: Tax paid	0	2,347	2,820	0	0
Net Interest	2,256	2,507	3,202	4,362	4,601
Change in Rec.	(5,374)	(3,486)	5,080	(1,958)	(8)
Change in Prov.	(20)	(6,820)	(308)	0	0
Change in Def Tax Assets	0	(2,349)	(2,819)	0	0
Change in Inv.	0	0	0	0	0
Change in Def. Rev.	6,011	1,468	(1,420)	(2,526)	(3,533)
Gross Cashflows	(8,840)	12,508	4,358	9,378	11,498
Capex	(1,985)	(893)	(3,785)	(1,500)	(1,500)
Free Cashflows	(10,825)	11,615	573	7,878	9,998
Re-Purchase of Shares**	0	0	(3,020)	(4,585)	0
Net Cash Flow	(10,825)	11,615	(2,447)	3,293	9,998

** Biota announced an on market buy-back of up to 5% (9.17m shares) of its issued capital commencing 10 mar 08

*Excluding litigation expense and settlement, tax effected at 30%

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