

## Message from the CEO

Dear Shareholder,

Cellmid is going through an exciting period of rapid growth and development. We have recently released details of the acquisition of Advangen Inc., Japan, taking control of the global rights to the FGF-5 inhibitor products for hair growth. This is a company changing event and we expect significant revenues coming from that business over time.

The acquisition of Advangen Inc., has attracted interest from mainstream business and trade media alike and for good reason. It provides the company with a unique opportunity to become a global leader in developing scientifically validated hair growth products and reach profitability of this business.

During the first year of the acquisition of Advangen Inc, we will be reporting on sales retrospectively in our quarterly cash reports. Once sales patterns and replenishment rates become established we will be able to provide numbers on profitability. We expect that there will be a period of consolidation with the Japanese business and expanding that market will take 12-18 months. There is strong potential for growth in Japan from the established Andeprong brand and from entering new distribution channels.

We have a global strategy for distribution which is detailed on page 3 of this newsletter. Australia remains a very important market in this program and we continue to pursue sales in the pharmacy and salon distribution channels. In addition, we expect Australia to become one of the key centres for our online sales strategy, especially into English speaking markets. Our websites are currently being upgraded in preparation for the expected increase in commercial traffic.

Cellmid has always been proud of the excellent science that the company's products are based on. This is also true for our FGF-5 inhibitor hair growth range developed with science from one of the leading research groups in Japan, the National Institute of Advanced Industrial Science and Technology.

On page 4 of this newsletter we provide an insight into the cutting edge work Advangen's scientists continue to do in the company's laboratories in Chiba, Japan.

Since the last newsletter our diagnostic licensee, Pacific Edge, launched their bladder cancer test (CxBladder) in the United States with midkine as one of the biomarkers. We have also signed an Option agreement in February with

Fujikura Kasei in Japan for the licensing of our diagnostic portfolio.

Testing of our anti-midkine (anti-MK) antibody portfolio yielded strong efficacy results in the treatment of diabetic nephropathy earlier this year. We are now in the process of implementing a larger study in this disease indication. Further preclinical trials are ongoing in cancer and surgical adhesions in preparation for selecting the first clinical indication for our anti-MK antibodies.

With less than twelve months away from the third Midkine Symposium in Kyoto, preparations are under way for hosting the meeting. We are privileged that the discoverers of midkine, Professors Muramatsu and Kadomatsu, offered to host the event, which is expected to draw record number of scientists from around the world.

This is an exciting and challenging period for Cellmid. We understand that our shareholders want steady sales growth which we expect to achieve over time through getting the fundamentals right, educating pharmacy sales staff and advertising using high impact targeted campaigns.

We know that many of our shareholders follow our progress closely. We thank you for your interest and support.

**Maria Halasz, CEO**



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## The Advangen acquisition brings new investors for Cellmid

As part of the acquisition of Advangen Inc. Cellmid will be issuing 55 million shares to the twelve investors who jointly own 100% of the shares of Advangen. Of the four new institutional investors on Cellmid's register, two are represented by Dr Takeo Matsumoto, as Founding Director.

### Interview with the Founding Director of Biotech Healthcare Partners, Dr. Takeo Matsumoto

#### Tell us about Biotech Healthcare No.1 Limited Partnership and bhp No.2 Investment Limited Partnership

These are venture capital funds focused on investments in life sciences companies. I have been a director of Biotech Healthcare No 1 Limited Partnership since 2002 and have made several investments during the life of the fund. bhp No 2 Investments Limited Partnership is our second venture fund and was set up in 2007 to provide follow up and new funding to life science companies.

#### Have you been actively following the developments at Advangen?

Biotech Healthcare No 1 Limited Partnership was the founding investor in Advangen Inc. in 2002, and we have since made follow up investments in the company at different stages of its development. As an investment director, I have represented our fund on the board of Advangen Inc. since its establishment, so yes, I have been closely following the company's progress.

#### What are your thoughts on the technology?

We have originally invested in the company because the technology is world class and we could see the opportunity to take it to market in a relatively short time. I believe the Advangen team has done an amazing job at converting within five years what was basic science around FGF-5, to products on market. Of course the innovation hasn't stopped since and the team has exciting developments which we expect will give rise to new patents in the future.

#### Tell us about the Japanese market for Advangen's hair growth products

Japanese people are not different from anywhere else, in that they don't like to lose their hair. Around 40% of men over 50 and 30% of women over 40 will have excessive hair loss, and many of them are distressed by it. They also prefer to use natural products as opposed to drugs. Andeprong (our Japanese évolis® equivalent) is well recognised as a high quality brand and we have done very well with sales in the past through direct marketing channels. There are still opportunities for growth with Andeprong, and entering other distribution channels.

#### What do you think of the Australian operation?

I was pleased when we set up the partnership in 2010 as I knew that the product will be in capable hands. We have been happy to support Cellmid in their local product strategy from the beginning. I participated in the launch event of évolis® in 2012 and have been very impressed by the progress Maria and her team has since made on the distribution side. The foundations are well laid by growing the distribution gradually, educating pharmacy staff and driving customers into pharmacies with targeted ad campaigns.

#### You will take CDY shares at a premium as part of the deal. Are you happy with that?

Firstly, to us it makes eminent sense to merge the two businesses and Cellmid has excellent strategy and team to make the FGF-5 inhibitor products successful globally. We are also delighted to have access to the potential upside from the midkine portfolio. We believe the science behind midkine as a novel target for inflammation and cancer is very strong. We have been impressed by the advances made in product development since Cellmid acquired the portfolio and hopefully this value will eventually be recognised by the market. So we are very happy to take equity in CDY and share in both assets.



Dr. Takeo Matsumoto, Director Biotech healthcare No. 1 Limited Partnership and bhp No. 2 Investment Limited Partnership

## Global distribution strategy for Advangen - Australia remains key

FGF-5 inhibitors form a new category of hair growth products and their regulatory treatment may vary from country to country. In Japan, Advangen's products have been approved as 'quasi drugs', in Australia they come under the listed medicines' regime, while in Europe they are expected to be approved as natural medicines.

Distribution strategy in each of these regions depend on the level of approvals and claims the products may be able to achieve. In Australia, we continue to expand on the over-the-counter pharmacy channel. We have a critical number of pharmacies stocking the product, which allows us to advertise in a well considered and measurable way.

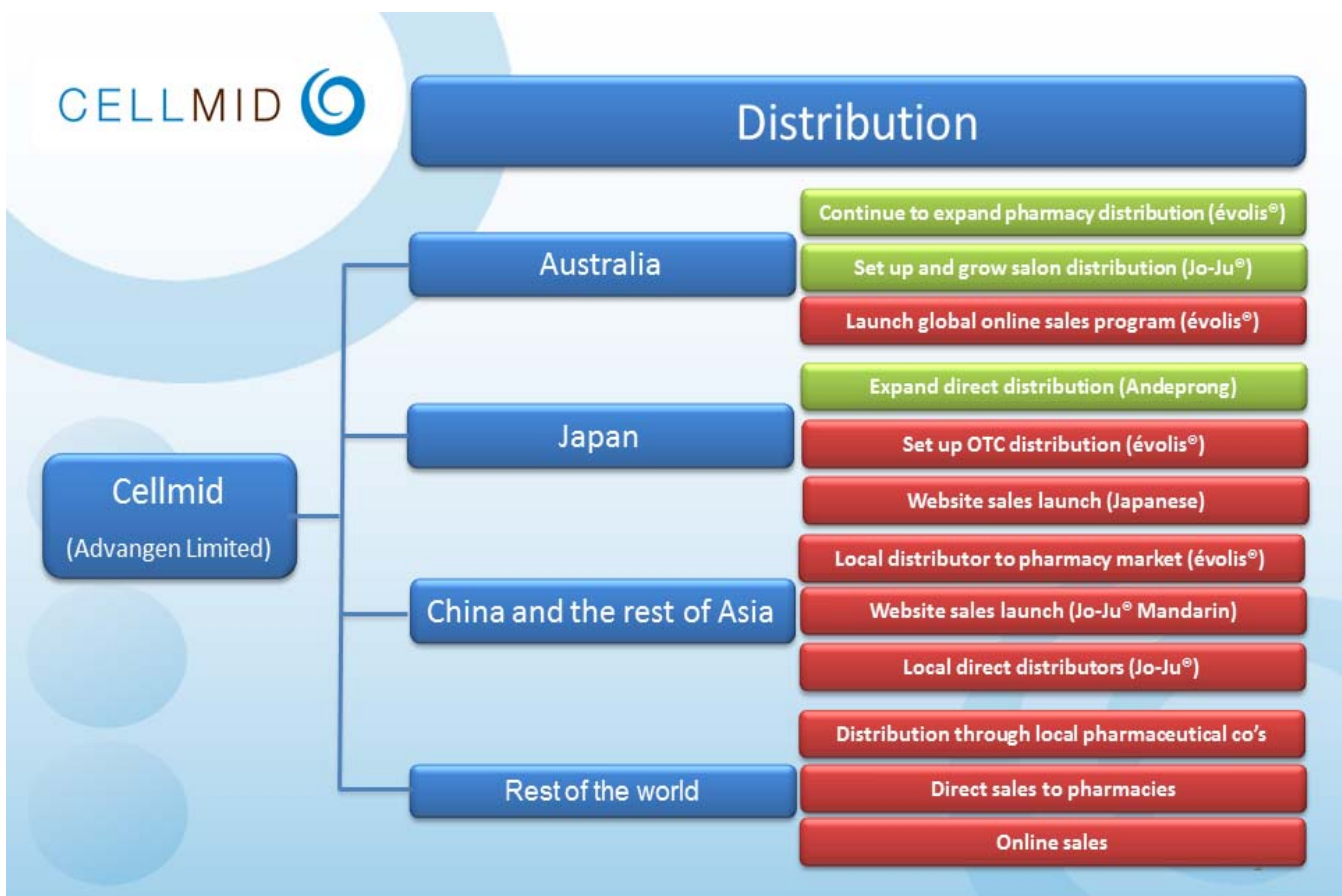
We will continue to work on educating pharmacy sales staff in the various buyer groups. This includes online and in store training programs and providing point-of-sale material that can be used in the sales process.

In Japan, sales have already been established through the direct marketing channel with a capable local company, Natural

Gardens. Our task is to increase sales through this channel and build new avenues for sales. Importantly, we will assess the feasibility of selling the évolis® branded and Australian manufactured products in the over-the-counter pharmacy market in Japan.

Chinese import permits for the Jo-Ju® and Lexilis® brands are some of the key assets of Advangen Inc., and it is expected that our global strategy will be focused on this market in 2013. We have already received a large number of expressions of interests from companies wishing to represent our products in this potentially lucrative market. Assessing these and selecting the best potential partner will be one of the most immediate challenges following the settlement of the acquisition.

Other significant markets, such as several European countries, have been actively pursued since the launch last year. Our primary objective there is to find a partner experienced in OTC product distribution. We expect further developments there during the course of 2013 .



## The science behind Advangen's products is world class

For a biotechnology company excellent science is a fundamental starting point for any product development. This is especially true for us here, at Cellmid. We have been fortunate to have hair growth products originating from one of the leading research organisations in Japan, the National Institute of Advanced Industrial Science and Technology.

When we have recently visited Advangen's science team in their labs in Chiba, just outside of Tokyo, we could not help but be impressed by the advances they have made since the FGF-5 inhibitor technology was transferred to the company in 2002.

The Advangen labs are located in state-of-the-art facilities adjacent to the prestigious Tokyo University. In over a decade of research and development, Advangen's scientists have developed and patented a sophisticated cellular assay to identify compounds that inhibit FGF-5. This assay has been the workhorse for Advangen's operations to date. It has been used to discover, develop and test the active components in Advangen's current product range.

Recently, the Advangen R&D team have developed a new suite of methodologies and assays for discovering FGF-5 inhibitors. These new assays use freshly extracted human hair follicles instead of cell lines. As such, the new assay systems authentically recapitulate the biology of the hair cycle. Not only are these assays a more realistic reflection of the in vivo situation, they also allow faster screening and higher throughput. This means that more compounds can be assessed within the same period of time.

**These new methods represent an exciting new platform technology that can be used to find not just new FGF-5 inhibitors, but also other mediators of hair growth.**

Dr Yamauchi, Senior Researcher at Advangen, presented new data derived from this platform technology during our due

diligence visit to Chiba HQ. Chief Scientist, Dr Masakuni Yamamoto advised us during our meeting that they have identified promising early leads which may one day become key active ingredients in future generations of Advangen's hair loss products.

Advangen continues to successfully innovate with exciting and valuable science that addresses a high-demand, lucrative market. The powerful platform technologies promise to maintain and enhance the company's position as the global leader in addressing FGF-5-related hair loss.

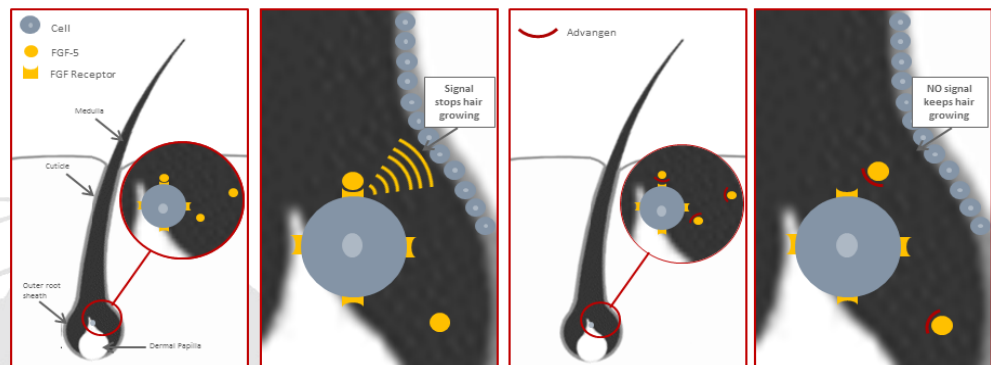
### Advangen's clinical study was led by top dermatologist, Professor Seiji Arase

Conducting a gold standard clinical study for the evaluation of a hair growth product is highly specialized and requires advice from key researchers in dermatology and hair science. Advangen's clinical study was led by Professor Seiji Arase, one of the top clinical dermatologists in Japan with research interest in the mechanism of hair growth and hair cycle.

Professor Arase has a long list of academic credits, including Councilor to the Japanese Society for Investigative Dermatology, Advisor to the Japanese Society for Hair Science and Advisor to the World Congress for Hair Research. Professor Arase chaired Advangen's first international symposium on hair cycle and molecular signaling held in Tokyo in December 2009. He is currently Professor Emeritus of The University of Tokushima Graduate School and Director of Health Insurance Naruto Hospital.

As medical advisor to Advangen Inc. since 2007 Professor Arase published the report on the clinical evaluation of the FGF-5 inhibitor, *Sanguisorba officinale*, one of the main ingredients used in Advangen's hair lotion products. His clinical input has been vital for Advangen's product development.

## Advangen's products inhibit FGF-5 binding to the dermal papilla



FGF-5 binds to dermal papilla cells. The FGF-5 protein can only connect to the FGF-5 receptor (like a lock and key).

When the FGF-5 and the receptor connect, the cell sends a signal to the outer root sheath cells prompting the follicle to transition from growing to resting.

Advangen's active ingredients stop FGF-5 from binding to the receptor by creating a barrier between FGF-5 and the cell.

FGF-5 is now unable to bind to the cell, allowing the hair to remain in the growing phase for longer.

## FAQ on the Advangen Inc. Japan Acquisition

### With the acquisition of Advangen is Cellmid becoming a cosmetic focused company?

Cellmid is a product development company in healthcare with three key business units; therapeutics, diagnostics and over-the-counter (OTC) medicines. We will continue to work on all three businesses to bring products to market. Our OTC business, through the Advangen developed FGF-5 inhibitor technology, has already started to generate revenue. So has our cancer diagnostic unit. We've had a diagnostic research product on the market since 2010, and a diagnostic test for bladder cancer, CxBladder, was launched in March 2013 with our technology. Our therapeutic products are currently in preclinical development and we expect our first anti-midkine antibody drug will enter the clinic in 2015.

### Doesn't Cellmid already own Advangen?

No, Cellmid signed a manufacturing and distribution agreement for the technology with Advangen Inc., Japan in 2010 for Australia, USA and Europe, but did not buy the company. Cellmid had no control over the IP and the established markets in Japan or the substantial new market opportunities in China. We also had limited pricing and development control prior to the acquisition. With the acquisition Cellmid owns products and IP globally.

### Will Cellmid keep all the staff and facilities in Japan?

Operationally, very little will change with the company, other than it will be owned and controlled by Cellmid. The labs are essential for future product development and maintaining a leading position in hair science. Manufacturing will also be maintained in Japan for the local brands.

### What is the reason behind the cash plus shares deal structure?

Advangen's shareholders understand that they have a new business with significant upside. They were keen to share in this future potential by taking shares in Cellmid. They are also familiar with the Company's product development in relation to the midkine portfolio and they are keen to share in the upside there as well. The cash consideration was limited to those that had to exit due to their fund reaching the closing period.

### How do you plan to market the products beyond Australia and Japan?

In the US the products are most likely to be sold as cosmetics, in Europe we are likely to sell our TGA listed brand, évolis®, through pharmacies, while in China we will pursue both channels. In short, we have different distribution strategy for different markets.

### What markets will you aim for first?

We have plenty of scope to expand our markets in Australia and Japan, so we will continue to work on these. Concurrently, we will commence limited release in some European countries as well as looking at the best way to set up Chinese distribution. In addition, we will be opportunistic in countries where distribution can be readily accessed.

### You make a statement about significant increase in revenues. Can you tell us exactly what financial impact the deal will have on Cellmid?

We expect to provide earnings reports after the first full year of joint operations. Until that time, we will report on cashflows on a quarterly basis retrospectively. Of course we have internal targets. We will have immediate access to the revenues from the Japanese operations. We also expect the sales in Japan to grow significantly in the near term. In the mid term, our most important revenue growth opportunities will come from some of the European countries and China.



## Advancing personalised medicine - midkine accelerating drug development

The biggest emerging challenge in global healthcare is how we will continue to afford it. In the US healthcare spending is now 17% of its entire GDP; double what it was 30 years ago. This problem arises from profound changes in demographics (longer lives, rising obesity and fewer taxpayers relative to the old and sick) coupled with more and more novel and expensive medicines and technologies.

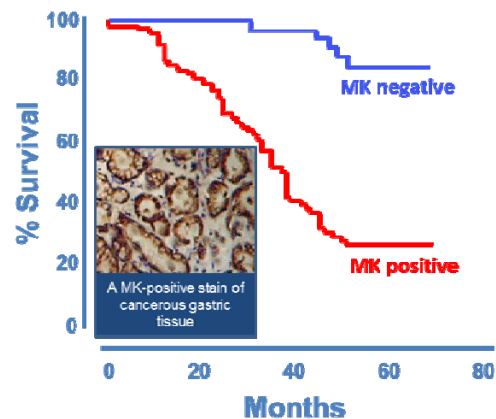
The people who underwrite these costs (primarily governments and health funds) are increasingly reticent, and unable, to pay for new treatments. The days where blanket reimbursement is granted across large disease markets for the latest wonder-drug are fast vanishing. Instead, drug developers face a future where their products will only get approved and bought for use in tightly defined subsets of patients for whom the treatment can work. In this scenario, patients will be tested extensively first to see whether their individual version of the disease is susceptible to a particular therapy and so delivered 'personalised medicine'.

The tests that accompany a potential treatment in this way are called companion diagnostics. Companion diagnostics are the key to personalized medicine and they also hold an increasingly important role in streamlining drug development. Having a companion diagnostic decreases risk during clinical development of treatments, because only the 'right' patients are targeted in clinical trials. By treating only the 'right' patient group, efficacy is more likely to be demonstrated, leading in turn to faster regulatory review and market approval.

Until recently, most companion diagnostics were 'added on' to the therapies after they reached the market. However, pharma companies are increasingly relying on companion diagnostics to guide drug development from the very first clinical studies. The rise of companion diagnostics represents a massive new market opportunity for biomarkers including midkine (MK). Traditionally, diagnostic tests have focussed on population screening and early detection, but in the future testing after diagnosis (to predict best treatment and to

monitor treatment effectiveness) may become the most lucrative market.

For MK, numerous published studies have emphatically shown that high MK expression indicates poorer prognosis independent of the cancer's size and stage. Furthermore, in some cancers, the expression of MK indicates resistance to treatment. Therefore MK offers strong potential as a companion biomarker to some treatments. Finally, as Cellmid develops its anti-MK therapies, its MK-ELISA can be integrated into the program as a companion diagnostic.



**Midkine expression in stomach cancer is strongly predictive of patient survival.** 107 patients with gastric cancer were assessed for MK expression. Five years after diagnosis only 25% of the MK positive patients were still alive, compared to over 80% of the patients with no MK expression (From Zhao et al, 2012, *Mol Med Reports*). Other cancers where MK expression predicts survival include glioblastoma, pancreatic cancer, oesophageal cancer, mouth cancer and neuroblastoma

**Personalised medicine:** Treatment tailored specifically to a patient's version of the disease. The most promising treatments are selected based on diagnostic tests that characterise specific disease features, such as the presence or absence of certain genes or proteins.

**Companion diagnostic:** A test carried out to determine whether a specific treatment is likely to work in a patient. The administration and result of the test is tightly coupled to the use of the treatment hence is a 'companion' to the treatment.

## Cellmid in the news

Cellmid has been attracting attention in the Australian business media, with the company positively featured in a range of recent articles in publications including the Australian Financial Review, The Australian, Herald Sun, BRW and Proactive Investors.

The Herald Sun's well-respected business columnist John Beveridge rated the company a "speculative buy" late last year. Those investors who heeded this sage advice have been solidly rewarded, with the share price doubling in recent months. Beveridge retained the "speculative buy" call in the Herald Sun's business pages in February this year, noting that the company "is not a one-trick pony", pointing to revenues already being generated by évolis® sales, as well as longer term opportunities expected to arise from the company's proprietary midkine diagnostic portfolio.

The acquisition of Advangen Inc., has been featured in a large number of international, national and regional medias. As a result the Company has been put on the watchlist for industry databases like IMS, Biocentury, Evaluate Pharma in addition to business portals internationally.

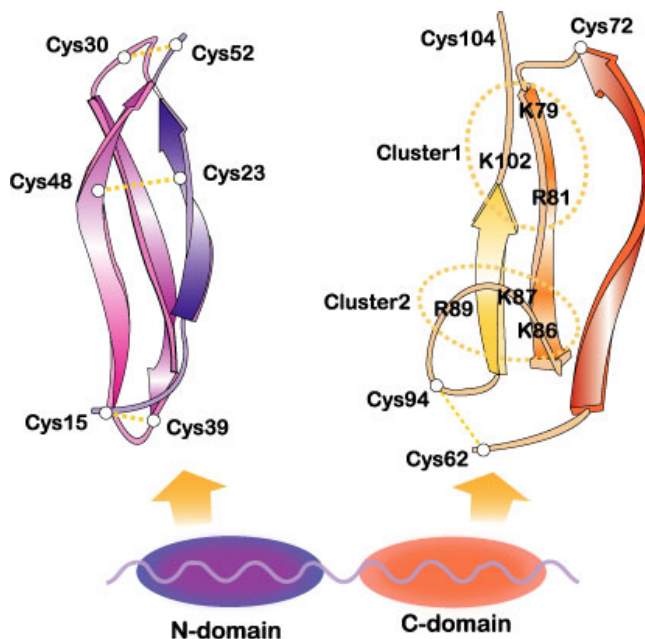
## Third Midkine Symposium - Kyoto, Japan April 2014

Cellmid will host the third international midkine conference in Kyoto in April 2014, renamed as Midkine Symposium. The first two midkine conferences (held in Sydney, 2010 and Istanbul, 2012) have established a cohesive global midkine community, bringing together researchers from across the world, and in a variety of fields, to focus on this fascinating molecule.

The meeting has fostered numerous collaborations between midkine scientists and Cellmid, and it has spurred on many new discoveries. This continued progression in midkine science adds enormous value to all of Cellmid's programs in three ways; it identifies new diagnostic and therapeutic opportunities for Cellmid to pursue, it helps Cellmid to better understand how anti-midkine treatments work, and it raises the profile of midkine as a disease target within the health industry.

With the meeting to be held in Japan, the 'birthplace' of midkine, Cellmid expects this will be the largest Midkine Symposium.

The discoverers of midkine, Professors Takashi Muramatsu and Kenji Kadomatsu, inspired many aspiring scientists and we expect around 100 delegates on this meeting.



## Profile: Emeritus Professor Takashi Muramatsu

Professor Muramatsu is the co-discoverer of midkine and Scientific Advisor to Cellmid. He has published nearly 200 papers on midkine, and he is an inventor on over 50 midkine patents.

Professor Muramatsu began his career with a PhD from The University of Tokyo in 1968. He was then appointed as Research Fellow at the Albert Einstein College of Medicine, New York, USA. He returned to Japan as Assistant and then Associate Professor at Kobe University School of Medicine. In 1980, after a stint at the Pasteur Institute, Dr Muramatsu was appointed Professor at Kagoshima University Faculty of Medicine, remaining there until 1993. It was during this time he discovered midkine along with Professor Kadomatsu, publishing the discovery in 1988.

Subsequently, Dr Muramatsu was Professor at Nagoya University and at the School of Medicine at Aichi Gakuin University. He was made Professor Emeritus of Nagoya University in 2004.

In 2002 Professor Muramatsu received the prestigious Chunichi Cultural Prize for the discovery of midkine. He continues to actively collaborate with researchers worldwide on midkine research.



Emeritus Professor Takashi Muramatsu



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### Listings

Australian Securities Exchange, ASX

ASX Code: CDY

Issued Capital - Ordinary Shares  
650,470,078

(Listed) Options  
290,542,770 (exercise price \$0.034 exp. 23 October 2016)

Market Capitalisation  
A\$18M (@ 20 May 2013)

Cash Position  
A\$3.21M (@ 31 March 2013)

## Board

Dr David King	Chairman
Ms Maria Halasz	Chief Executive Officer and Managing Director
Mr Graeme Kaufman	Director
Mr Martin Rogers	Director

## Senior Management

Mr Darren Jones	Head of Product Development
Mr Nicholas Falzon	Financial Controller and Company Secretary
Ms Emma Chen	Advangen General Manager

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## Forward looking statement

This publication contains forward-looking statements that are subject to risks and uncertainties. Such statements involve known and unknown risks that may cause the actual results, performance or achievements of Cellmid to be materially different from the statements in this presentation. Actual results could differ materially depending on factors such as the availability of resources, the results of clinical studies, the timing and effects of regulatory actions, the strength of competition and the effectiveness of the Company's patent protection.