

PHARMANET GROUP LIMITED

ABN 98 006 640 553

CHAIRMAN

MR JOHN PALERMO

DIRECTORS

DR CHRIS QUIRK

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COMPANY SECRETARY

MR JOHN PALERMO



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Shareholder Update

(QUARTER ENDED 30 JUNE 2013)

31 July 2013

The Company updates Shareholders on its activities during the reporting period ended 31 March 2013.

Sales and Marketing

Sales for the quarter were \$78.6K, up 110% from the previous quarter and 29% year over year. Growth can be attributed to the seasonal growth in the arthritis pain relief market, heightened sales activity at the pharmacy level following the completion of the transition to new broker representation in the eastern states, and a concentrated advertising and promotional campaign.

The sales growth was somewhat offset by the introduction of new branding and packaging. In May 2013, the new Thermalife® branding and packaging was launched. This initiative included changing all stock at the wholesaler level to expedite introduction of the new packaging at the pharmacy level. This change-out resulted in a freeze of wholesaler orders during the transition, which had an impact on monthly sales to wholesalers for the month. However, this brief impact on monthly sales is expected to be counteracted by a more rapid uptake of Thermalife® by consumers at pharmacy level that is driven by modern, visible and category-relevant packaging. The changeover has already been met with enthusiastic, positive feedback from pharmacies.

In addition to the paid print and radio advertising campaign, Thermalife® consumer awareness is also benefitting from free publicity due to a recent national news segment on *A Current Affair*, which highlighted the product and its unique characteristics for relief of back pain. This national coverage has resulted in an uplift in sales, and is particularly valuable to grow product awareness and demand in the Eastern States. In addition, and on par with strategy, word of mouth discussion about Thermalife® continues to grow and has resulted in free publicity opportunities, including a recent mention by a broadcaster on a prominent Sydney radio station that appeals to the target demographic for the brand.

The Company continues to receive frequent reports of medical professionals who use and recommend the product and the Company is following up with them individually. This is consistent with our long term plan to build relationships with key opinion leaders in the category and to further expand our sales targets to include allied health professionals.

Gaining acceptance (core ranging/stocking agreements) for Thermalife® by buying and banner groups continues to be a high priority in 2013. Approximately 60% of Australian pharmacies are already affiliated with banner or buying groups, and the trend continues to grow. In the fourth quarter of 2012-13, Thermalife® successfully negotiated agreements with six buying/banner groups, including three national groups and three state/regional groups, for a 250% increase in the number of group-affiliated stores that can stock Thermalife®. Store compliance to buying/banner group ranging agreements vary by group, and while they are not a guarantee that all affiliate stores will carry Thermalife® at all times, aligning with buying/banner groups helps to deliver greater predictability and consistency to purchasing cycles in comparison to independent pharmacies. Negotiations are ongoing with additional national and state/regional-based groups.

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Thermalife® is also the exclusive pain relief sponsor at the Australian Masters Games to be held in Geelong in October 2013. This is a continuation of our long-term association with this event and represents a more focused opportunity to connect Thermalife® with a more active audience and also to showcase the new Gel product. The Sales and Marketing team are preparing for this event now with samples, literature and other materials needed to make our sponsorship of this event a success.

New Product Development

1. Scheduling to manufacture the first commercial batch of Thermalife® Active Gel was locked in during June following resolution of an ingredient supply matter and was completed in the first week of July. The batch was manufactured as a split batch, including 50g and 100g tubes, as well as bulk for manufacture of 5g sample sachets. The batch will undergo standard validation, and quality assurance testing before it is available to be released to the market. Preparations for product launch have been ongoing, and will be implemented once the product is released from manufacturing quarantine.
2. Laboratory work to define attributes and characteristics of Thermalife® Active Gel was concluded during the quarter, with positive outcomes in defining clinically advantageous characteristics vs. comparable products – including the category market leader. The characteristics evaluated include absorption, penetration and antioxidant effects. They are now being evaluated to determine the extent to which they can be utilized for marketing purposes given the regulatory environment related to claims associated with listed products.
3. Submissions made to the TGA for new packaging and product sizes for the Thermalife® cream are currently undergoing TGA approval. The Company is seeking to future proof the brand by having multiple sizes pre-approved giving the flexibility to react faster to changing brand and consumer dynamics. This will allow for quick introductions of bonus sizes or better entry priced versions to better meet the expectations of pharmacy customers and the consumer.

R & D / Product Development / Licensing / IP

1. Collaborative research continues on the investigation of the cellular mechanism by which Nutracel exerts its activity. The first milestone of establishing the baseline activity has been set and work is now focused on developing reliable cell assay techniques that will allow for routine assessment of potency and to establish dose response relationships.
2. In parallel with the collaborative research preliminary work is also underway under a CDA with an Indian company to plan and cost out a full research program at elucidating the molecular structure of the active ingredient (or ingredients) and to further elaborate this structure into a more pharmacologically active ingredient. This work is complementary to the collaborative work and the in-house work at Pharmasolv. The combined work from the three groups is aimed at quickly and cost effectively establishing precisely how the product works at a molecular level to give the observed clinical result in treating pain and inflammation.

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Licencing

Molecular Pharmacology Pty Ltd (a wholly-owned and subsidiary of MPL (USA)) executed an agreement with Dermatology Development Corp. (DDC) of New York USA to broker deals with third party entities to introduce both Thermalife® Cream and Nutracel derivatives into the US, predominantly in dermatological applications. This represents a major move by the Company to establish the technology in the US and to open a new area of operations into the dermatological field. Our research findings particularly in the area of inflammation have immediate utility in areas such as psoriasis, atopic dermatitis and other inflammatory skin conditions and DDC is well placed to ensure we have access to strong partnerships.

- Ends -

For more information:

John Palermo
Director and Company Secretary

Forward looking statement

The forward looking statements in this Shareholder Update are based on the Company's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and its Directors, that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this Shareholder Update.

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