



ASX Release

ASX Code: XCD

Metabolic Investment into PolyNovo

18 December 2008

Metabolic Pharmaceuticals Limited ("Metabolic") has today announced that it has made an investment of \$3.5 million resulting in an initial 60% ownership of PolyNovo Biomaterials Ltd ("PolyNovo") ("Metabolic Investment"). Metabolic also has the option to invest up to a further \$5 million to acquire additional shares in PolyNovo. A copy of Metabolic's announcement is attached.

Xceed Capital Limited ("Xceed") and Commonwealth Scientific and Industrial Research Organisation ("CSIRO") will now own ordinary shares representing 25.5 per cent and 14.5 per cent of PolyNovo, respectively.

Metabolic announced on 1 December 2008 that the Share Sale Agreement relating to Metabolic's proposed acquisition of 100% of PolyNovo had been terminated following Metabolic's Annual General Meeting held on 27 November 2008, at which a majority of Metabolic shareholders voted against the resolutions relating to the proposed acquisition of 100% of PolyNovo. As a consequence, the proposed acquisition did not proceed ("Initial 100% Transaction").

The Binding Term Sheet ("BTS") for the sale of PolyNovo announced on 18 July 2008 provided inter alia that Metabolic agreed to advance PolyNovo up to \$2 million ("Loan") to enable PolyNovo to move forward with its business development whilst the Initial 100% Transaction was completed, at that time estimated to be three months. An initial \$1 million of Loan funds was advanced on execution of the BTS, and further funds (up to an aggregate of \$1 million) were to be advanced following satisfactory due diligence and satisfaction of the relevant drawdown conditions. In the event settlement of the Initial 100% Transaction did not occur, Metabolic could require repayment of the Loan or convert the Loan into equity in PolyNovo. The BTS also provided that in the event Metabolic required repayment of the Loan by PolyNovo, Xceed would subscribe for, or procure others to subscribe for a minimum of \$2.5 million of additional share capital in PolyNovo on terms outlined in Xceed's announcement on 9 July 2008, to enable PolyNovo to repay the Loan and continue meeting the milestones under the current licensing agreements ("Xceed Subscription Deed").

As at 28 November 2008, Metabolic had advanced PolyNovo \$1.25 million in Loan funds.

From the date of execution of the BTS until 28 November 2008, PolyNovo entered into contracts for the establishment of new facilities at Port Melbourne with an estimated value of \$1.3 million. These facilities have been designed to enable PolyNovo to manufacture the specialised polymers for the medical device development projects they have in place with Medtronic Inc, Biomet and Smith and Nephew plc. The fit out of these facilities is substantially completed with final payments due in early January 2009.

As a consequence of the termination of the Initial 100% Transaction, the current working capital of PolyNovo and the immediate commitments relating to the completion of the new facilities at Port Melbourne, the Board of PolyNovo considered PolyNovo to be nearing insolvency without an immediate injection of capital or provision of further bridging facilities. Xceed formed the view that the potential insolvency of PolyNovo or any voluntary administration of PolyNovo would frustrate the operation of the Xceed Subscription Deed. Both shareholders of PolyNovo are of the view that they were not in a position to provide bridging finance facilities to allow PolyNovo to continue trading whilst it sought other external finance.

Since 27 November 2008, the PolyNovo Board sought third party expression of interest in providing the required equity injection into PolyNovo. None of those third parties were able to commit to completing a proposal within a timeframe that would allow PolyNovo to continue to trade and avoid voluntary administration.

Following confirmation from ASX that Xceed could proceed with the Metabolic Investment without seeking shareholder approval, the Board of Xceed formed the view that the benefits of accepting the Metabolic Investment being the conversion of PolyNovo's debt to equity together with an immediate capital injection offered a significantly improved result for Xceed shareholders as compared to the prospect of the voluntary administration of PolyNovo, the likely realisable values of leasehold improvements of the Port Melbourne facilities and the sale of PolyNovo's intellectual property rights.

Since August 2007, Xceed has made explicit its strategy to demerge or divest its holding in PolyNovo. The ongoing capital requirements for the development of PolyNovo business activities remains incompatible with the financial resources of Xceed and its ability to raise the significant capital on a cost effective basis. Xceed has made numerous public statements of its intentions with respect to its investment in PolyNovo and progress with various capital raising initiatives. The Xceed Board therefore considers the acceptance of the Metabolic Investment to be consistent with its past statements in respect of PolyNovo and future intentions for the company.

As a result of the Metabolic Investment Xceed's interest in PolyNovo will reduce from 63.9% to 25.54% (or 13.75% on a fully diluted basis).

Xceed has invested a total of \$10.1 million into PolyNovo since 2004 which had an impaired value of \$7.2 million at 30 June 2008 in the books of Xceed. It is likely that further impairment of its carrying value of the investment in PolyNovo will be brought to account by Xceed as a result of the Metabolic Investment.

Mr Peter Francis and Dr. Ian Griffiths have resigned as directors of Xceed and PolyNovo upon execution of the revised investment agreement between PolyNovo and Metabolic.

Xceed will continue to look to optimise its investment in 100% owned Boron Molecular Pty Ltd which is unaffected by the actions taken with respect to PolyNovo and will now actively consider alternative investment opportunities to seek to recover value for Xceed shareholders.

ENDS

Further Information:

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Xceed Capital Limited

Xceed Capital Limited is an investment company based in Perth, Australia and is listed on the Australian Securities Exchange (ASX: XCD). Historically, Xceed has worked closely with CSIRO to successfully spin-off two companies. These companies, Boron Molecular Pty Ltd (100% owned) and PolyNovo Biomaterials Ltd (owned 25.5%) both commenced with exclusively licensed or assigned core technologies developed by CSIRO.

For more information, please visit the company's website at www.xceedcapital.com.au



ASX Announcement

ASX code: MBP

Metabolic invests \$3.5M for 60% of PolyNovo

Melbourne, 18 December 2008. **Metabolic Pharmaceuticals Limited (“Metabolic”)** today announced that it has made an investment of \$3.5 million resulting in 60 per cent ownership of PolyNovo Biomaterials Ltd (“PolyNovo”).

Metabolic has now reached agreement with PolyNovo's shareholders, Xceed Capital Limited (“Xceed”) and Commonwealth Scientific and Industrial Research Organisation (“CSIRO”), to invest a total of \$3.5 million in PolyNovo in exchange for 20,750,000 PolyNovo Series A shares. These Series A shares have similar rights to ordinary shares except for priority in the event of the winding up of PolyNovo. The conversion of Metabolic's existing loan to PolyNovo of \$1.25 million (together with accrued interest) is included within the \$3.5 million and will result in Metabolic having a 60 per cent ownership interest in PolyNovo.

Following this investment by Metabolic, the existing shareholders, Xceed and CSIRO, will now own ordinary shares representing 25.5 per cent and 14.5 per cent of PolyNovo, respectively.

Under the terms of the investment agreement, Metabolic has also been granted five options which will enable Metabolic to invest up to \$5 million to acquire further PolyNovo Series A shares at the same price per share as the initial investment. Each option entitles Metabolic to subscribe for 5,928,571 Series A shares on payment of an exercise price of \$1 million at any time on or before the expiry date of 30 June 2013.

The agreement with Xceed and CSIRO to acquire 60 per cent of PolyNovo follows termination of a prior agreement to wholly acquire PolyNovo.

Mr Rob Stewart, Chairman of Metabolic commented “the Board of Metabolic remains of the view that PolyNovo represents an exciting technology with great potential. It also considers that this restructured investment reduces the risk for Metabolic shareholders and enables Metabolic to make further investments in PolyNovo as and when the technology is further validated”.

Metabolic is entitled to appoint three of the five directors on the PolyNovo Board, including the position of Chairman. The Metabolic nominated Directors are Rob Stewart (Chairman), Franklyn Brazil and Paul Lappin. Dr Ian Griffiths will continue in his role as CEO of PolyNovo.

PolyNovo has several high potential projects, including licensing arrangements with some of the world's largest medical device companies, including Medtronic Inc, Biomet and Smith & Nephew plc. PolyNovo is focused on developing a novel patented family of biodegradable polymers, NovoSorb™, for use in medical devices. NovoSorb™ can be tailored to large world markets with potential applications in areas as diverse as orthopaedics, orthodontics, drug delivery, wound care, tissue engineering, nerve regeneration and cartilage repair.

Options will be issued to PolyNovo employees in Metabolic pursuant to the terms of the Metabolic Pharmaceuticals Employee Option Plan.

Cash position

Following its \$3.5 million investment in PolyNovo, Metabolic will have approximately \$12 million in cash and cash equivalents.

Strategy & outlook

The Board is committed to continue exploring opportunities in the current market which present the greatest potential to create significant value for shareholders.

For further information, contact Metabolic Pharmaceuticals on +61 3 9860 5700 or info@metabolic.com.au.

Inherent Risks of Investment in Biotechnology Companies

There are many inherent risks associated with the development of products to a marketable stage. The clinical trial process is designed to assess the safety and efficacy of products prior to commercialisation and a significant proportion fail one or both of these criteria. Other risks include uncertainty of patent protection and proprietary rights. Thus investment in companies such as Metabolic, must be regarded as highly speculative. Metabolic strongly recommends that professional investment advice be sought prior to such investments.

Forward-looking statement

Certain statements in this announcement contain forward-looking statements regarding the Company's business and the therapeutic and commercial potential of its technologies and products in development. Such statements are subject to certain risks and uncertainties inherent in the process of developing products that can be proven to be safe and effective. Metabolic undertakes no obligation to publicly update any forward looking statement, whether as a result of new information, future events, or otherwise. Actual results could differ materially from those discussed in this announcement.