

Australian Securities Exchange
Companies Announcements Office,
Exchange Centre,
Level 6, 20 Bridge Street,
Sydney, NSW 2000

18 February 2013

Bioxyne expands Sales and Distribution business – Proposed acquisition of VITALITY

Key Highlights

- **Acquisition of sales and distribution business VITALITY, a marketing distributor of high value medical devices in Australia and other key South East Asia regions.**
 - **Initial products focus on Chronic Heart Failure and Type 2 Diabetes.**
 - **Initial products are already CE marked and have received reimbursement approvals in key markets including Germany and the USA. In addition, the “DIAMOND” diabetes device has received Australia’s TGA approval.**
 - **A scalable business model with the opportunity to expand into key markets.**
 - **Key management with a demonstrated track record of success in the Australian biotech sector, to manage the Company and join the Bioxyne board.**
 - **Capital injection and support from major shareholder, Phillip Asset Management Limited, of up to \$2.5 million.**
-

The Directors of Bioxyne Limited (**BXN** or the **Company**) are pleased to announce that BXN has entered into a non-binding term sheet for the proposed acquisition of 100% of the shares and convertible notes in VITALITY Pty Limited (**VITALITY**). BXN’s major shareholder, Phillip Asset Management Limited acting as trustee for IB Australian Bioscience Fund I (**PAM**), is proposing to invest up to \$2.5 million in BXN, by means of subscription for equity in BXN, at various stages of the proposed transaction.

As demonstrated below, the proposed acquisition is considered to be a material milestone for BXN. BXN Chairman, Tony Ho, commented:

“We look forward to the merger of VITALITY and BXN and in particular, the high value medical device business model, as supported by a management team that has a proven history in delivering value to shareholders. The proposed transaction and the support of our major shareholder will provide funding and the opportunity to bring together the BXN and VITALITY businesses into one strong unit.”

About VITALITY

Background and overview

VITALITY was established in January 2012 as a sales and distribution business, initially focusing on high value medical devices in Australia and other key South East Asia markets. The founders of VITALITY – Greg Collier and James Campbell, both of whom had transitioned out of ChemGenex Pharmaceuticals after its sale to Cephalon for \$230 million – began working towards the business vision of establishing a medical devices company with expertise in regulatory affairs, marketing and sales in the Asia-Pacific Region.

A key platform to the success of the business will be the expertise of its management team, the identification of high value medical devices that are available to the business on satisfactory terms and the ability to deliver a scalable business model.

A key focus of VITALITY is the Chronic Heart Failure and Diabetes markets in Australia and core markets in Asia - namely Singapore, South Korea and Taiwan - with plans to expand both the portfolio of products and the distribution footprint across the Asia-Pacific region.

Initial products

VITALITY currently has distribution agreements in place in relation to two high value medical devices, both based on breakthrough technologies – “Optimizer® III” and “DIAMOND”. The technology of both devices is the subject of patents.

“Optimizer® III”

Optimizer® III was developed by Impulse Dynamics N.V. (**Impulse**) for the treatment of patients with Chronic Heart Failure (**CHF**). Approximately 26 million people globally suffer from CHF, of which approximately 2 million are located in Australia and the core markets, namely, Singapore, South Korea and Taiwan.

Early stages (I and II) of CHF can usually be treated through lifestyle intervention or pharmaceuticals, but later stages (III and IV) are treated with cardiac defibrillators, biventricular pacemakers, left ventricular assist devices and heart transplants. Optimizer® III provides a paradigm shift for later stage patients, working to remodel the heart and improve cardiac performance.

The basis of Optimizer® III was the discovery that Cardiac Contractility Modulation could be used to treat chronic, medically refractory CHF. Three independent randomised trials with Optimizer® III have shown significant impact on a patient’s exercise tolerance and quality of life.

Optimizer III®:

- received regulatory approval in Europe (CE mark) in 2007 for patients with normal “coordinated” cardiac contraction, having a normal QRS duration (70% of the Type III & IV patient population). Reimbursement has been approved in key markets, including Germany and the USA;

- will soon be submitted for review by the Therapeutic Goods Administration (**TGA**) in Australia. VITALITY management believes that the TGA is receptive to CE mark approved medical devices, as shown by procuring TGA approval of the DIAMOND device in a timely manner; and
- was launched commercially in 2010 in Germany. Commercial launch will occur in Australia after TGA approval is received. Significant sales in Australia are likely to be generated only after commercial launch.

“DIAMOND”

The Diabetes Improvement And Metabolic Normalization Device – or the “DIAMOND” device - was developed by Metacure Limited (**Metacure**) for the treatment of patients with Type 2 Diabetes.

The DIAMOND device was granted the CE mark in 2007, approved by TGA in April 2012 and is ready to be launched commercially in Australia.

DIAMOND is a patented implantable gastric stimulator that detects food intake into the stomach and electrically stimulates the antral stomach muscles to increase stomach contractility. This stimulation is believed to result in the activation of neuro-hormonal activity regulating glucose, insulin, glucagon, satiety and blood pressure similar to those activated by GLP-1 and other gastrointestinal hormones.

Clinical studies of the DIAMOND device found that HbA1c, a key indicator of Type 2 Diabetes, was reduced in 92% of the tested patients, with 43% of the patient group experiencing a reduction in HbA1c of >1.0% (the maximum HbA1c reduction was 3.0%). Significantly, the HbA1c level in 40% of patients reduced to ≤ 7.0% (a threshold level). In addition to these HbA1c improvements, implanted patients showed significant improvements in co-morbidities including blood pressure, lipid profile and liver enzymes. Implanted patients also showed modest weight reductions (~5-6kg). Over 75% of tested patients lost weight, and this loss was sustained for over 2 years in 75% of those patients.

Overview of the suppliers

Impulse Dynamics N.V.

Impulse was founded in 1996 and has US operations based in New York and European operations based in Germany (Stuttgart). After a decade of development activities and clinical trials, more than 1,300 patients have received an Optimizer[®] III device.

Metacure Limited

Metacure was founded in 2004 and has operations based in Europe. Combining clinical trials and units sales, more than 230 patients have received a DIAMOND device.

Business model

VITALITY’s business model is based on identifying and licensing medical devices that have already received regulatory approval in either Europe (CE mark) or the USA (FDA).

To date, VITALITY has not recorded a profit. However, sales and marketing plans have been developed, with a view to achieving profitability in the medium term, as well as to extend its product range.

Both the Optimizer® III and the DIAMOND devices have been approved (CE marked) in Europe.

VITALITY's next operational steps will be to initiate regulatory submissions over the next 12 months in each of Australia, Singapore, Taiwan and South Korea. VITALITY management believe that the CE mark status of the Optimizer® III and the DIAMOND devices and their extensive clinical and technical dossiers, provide strong grounds for obtaining such approvals.

Key people

VITALITY has its own management team. Additional staff will be engaged in the VITALITY business over time in accordance with its strategic plan.

The board of directors of VITALITY currently consists of:

James Campbell (PhD, MBA)

Co-founder, CEO and Managing Director

Dr James Campbell has more than 20 years' experience in scientific research, research management, management consulting and venture capital in Australia and internationally.

Dr Campbell has held research positions in France at the CNRS and also with the CSIRO in Australia. After completing an MBA at Melbourne Business School, Dr Campbell worked for the international management consultancy Booz & Company specialising in financial services and energy, and then worked for a year in biotech venture capital prior to joining ChemGenex Pharmaceuticals, initially as Chief Operating Officer and subsequently, as Chief Financial Officer.

Greg Collier (PhD)

Co-founder and Executive Chairman

Dr Greg Collier has more than 20 years' experience spanning commercial, operational, clinical and scientific aspects of biotechnology development and commercialisation. As Chief Executive Officer of ChemGenex Pharmaceuticals, Dr Collier aggressively pursued ChemGenex's progression to the clinic and eventual marketing approval of lead agents. Dr Collier has overseen an international merger, discovery and commercialisation agreements with international pharmaceutical companies and several substantial capital raisings. Dr Collier has a PhD in Biochemistry from Monash University and is the co-inventor of 33 patents and co-author of more than 120 scientific publications.

Irit Yaniv (MD, MBA)

Non-executive director

Dr Irit Yaniv is an experienced and accomplished senior executive in the life sciences industry, both in the medical devices and bio-pharma fields. In her 15 years in this industry, Dr Yaniv has successfully managed product developments (from inception through launch), designed and implemented clinical studies and pivotal trials, secured FDA regulatory approvals, effectively launched the sales of new products as well as increasing the sales of existing lines.

Dr Yaniv was formerly CEO of both Impulse Devices and Metacure, and has a detailed understanding of the technical and commercial aspects of both devices. Prior to joining Impulse Dynamics and

Metacure, Dr Yaniv worked for Bayer, Sunlight Medical, BSP and Brainsgate. Dr Yaniv holds an MD degree from Ben Gurion University and an MBA from the Recanati Graduate School of Business Administration at the Tel Aviv University.

Proposed terms of acquisition and funding

The key terms of the proposed acquisition of VITALITY, as recorded in the non-binding term sheet between BXN, VITALITY and PAM, are summarised below:

- BXN proposes to acquire all of the ordinary shares and convertible notes on issue by VITALITY for a consideration of \$3.5 million, to be financed by way of the issue of fully-paid ordinary shares in BXN (each, a **BXN Share**) (**Consideration Shares**). The number of BXN Shares to be issued as consideration for the VITALITY securities will be based on a subscription price which is the lower of \$0.024568 per BXN Share or the price per BXN Share at which BXN raises additional capital prior to completion of the proposed acquisition.
- PAM proposes to make an investment into VITALITY and BXN of up to \$2.5 million (**PAM Investment**), comprising the following:
 - an initial investment into VITALITY, before completion of the proposed acquisition, by means of subscription for up to two tranches of interest bearing convertible notes in VITALITY of \$250,000 per tranche (**Notes**) to fund the initial operations of VITALITY until the proposed acquisition is completed (**Tranche 1 PAM Investment**). The Notes shall bear an interest rate of 5% p.a.;
 - a subsequent investment into BXN of \$2M less the aggregate face value of all Notes issued under the Tranche 1 PAM Investment, after completion of the proposed acquisition, by means of subscription for BXN Shares, to fund the resultant business and working capital of BXN after completion of the proposed acquisition (**Tranche 2 PAM Investment**);
 - a commitment to underwrite the first \$500,000 of any public offer of securities by BXN pursuant to a prospectus that is completed prior to 31 August 2013 (or a later date agreed between BXN and PAM); and
 - a commitment to fund up to \$500,000 of BXN's transaction costs by means of underwriting a placement to be made shortly by BXN (**Underwritten Placement**). The amount invested by PAM under the Underwritten Placement is to be netted off against PAM's underwriting commitment in respect of the public offer referred to above.

The expected capital structure of BXN, assuming all of the above transactions are completed, is set out in **Appendix 1**.

- After completion of the proposed acquisition, BXN is also proposing to pursue a further capital raising pursuant to a prospectus to raise between \$1 million to \$4 million. The funds raised will be applied to BXN's existing operations and its new VITALITY operations.
- If the proposed acquisition of VITALITY is completed, it is expected that each of the current VITALITY directors will be appointed to the BXN board. It is intended that Dr. James Campbell would assume the CEO role while Dr. Greg Collier would be appointed Executive Chairman.

The existing BXN directors, namely, Anthony Ho, Jeremy Curnock Cook and Patrick Ford, intend to remain as directors of BXN after completion of the proposed transaction.

Appendix 2 sets out information about the likely effect of the transaction on BXN's total assets, total equity interests, annual expenditure and annual profit before tax and extraordinary items.

Appendix 3 sets out a provisional timetable for the implementation of the proposed transaction.

The proposed acquisition of VITALITY and PAM's funding commitments are subject to a number of conditions precedents including:

- approvals of the board of directors of BXN, VITALITY and PAM;
- approvals of the shareholders of BXN and VITALITY;
- satisfactory due diligence;
- regulatory approvals; and
- mutually acceptable sale and subscription agreements.

The Company has discussed the above-stated terms of the acquisition and funding arrangements with the ASX for the purpose of seeking the latter's determination as to whether or not these proposed transactions will require the Company to apply for re-admission to the Official List.

Shareholders will be informed about the progress of the proposed transaction summarised above, as the matter progresses.

For further information, contact:

Dr Phillip Comans
Acting Chief Executive Officer
Mobile: +61 (0)439 466 116

APPENDIX 1 – CAPITAL STRUCTURE OF BXN

Part 1: Capital Structure of BXN as at the date of this announcement

	Total Number
BXN Shares	154,051,815
Listed options	3,638,837
Unlisted options	8,516,466

Part 1: Capital Structure of BXN after completion of Acquisition and PAM Investment

	Assumed Price per BXN Share	Number of BXN Shares	Percentage %	Comments
Existing BXN Shares on issue	-	154,051,815	38.68%	
Underwritten Placement	0.024568	20,351,677	5.11%	Assumes that PAM subscribes for a total of \$500,000 under the Underwritten Placement
Consideration Shares to be issued to vendors under VITALITY acquisition	0.024568	142,461,739	35.77%	Based on VITALITY equity value of \$3.5 million
Consideration Shares for Notes issued to PAM under Tranche 1 PAM Investment	0.024568	10,175,838	2.55%	Based on Notes with an aggregate face value of \$250,000 and no interest having accrued
Shares to be issued to PAM under Tranche 2 PAM Investment	0.024568	71,230,869	17.88%	Based on subscription for \$1.750 million worth of BXN Shares
Total	N/A	398,271,939	100.00%	

APPENDIX 2 – TRANSACTION-BASED COMPARISON TABLE

A	B	C	D	E
Particulars	Before transaction	Increase/Decrease due to transaction	After transaction	Percentage change due to transaction
Method of Calculation	From 30 June 2012 audited accounts	Actual Increase/Decrease due to transaction	B /C	C/B
Total Consolidated Assets	\$2,472,080	\$5,750,000	43%	233%
Total Equity Interests	\$5,887,883	\$5,750,000	102%	98%
Total Securities on Issue	154,051,815	244,220,123	63%	159%
Particulars	Before transaction (From latest audited figures)	Projected Increase/Decrease due to transaction	After transaction (B +/- C)	Percentage change due to transaction (C/B)
Annual Profit	(\$1,784,131)	nm	nm	nm
Annual Revenue	\$1,677,251	nm	nm	nm
Exploration Expenditure (if applicable)	n/a	n/a	n/a	n/a

Notes to above table

nm - Not meaningful, VIALITY has limited trading history.
n/a - Not applicable to BXN

1. Movement in consolidated total assets

	\$s
Acquisition of VITALITY	3,500,000
Underwritten Placement	500,000
Tranche 2 PAM Investment	1,750,000
Total	5,750,000

- a. It is assumed that funds from Tranche 1 PAM Investment are fully utilised in the VIALITY business, pre-acquisition.

- b. The fair value of VIALITY is assumed to be \$3.5 million – that is the assumed purchase price.

2. Movement in equity interests

	\$s
Acquisition of VIALITY	3,500,000
Underwritten Placement	500,000
Tranche 2 PAM Investment	1,750,000
Total	5,750,000

3. Movement in securities

Consideration Shares re the acquisition of VIALITY	142,461,739
Underwritten Placement	20,351,677
Shares to be issued to PAM under Tranche 1 PAM Investment	10,175,838
Shares to be issued to PAM under Tranche 2 PAM Investment	71,230,869
Total	244,220,123

APPENDIX 3 – PROVISIONAL TIMETABLE

Event	Date
Signing of non-binding Term Sheet, ASX announcement and commencement of trading halt	Monday 18 February 2013
Completion of Underwritten Placement (\$500,000), including the signing of the Subscription for Tranche 1 PAM Investment	Tuesday 19 February 2013, COB
Lifting of trading halt	Wednesday 20 February 2013
Signing of: <ul style="list-style-type: none"> • Share Sale and Purchase Agreement (SSPA) with VITALITY vendors; and • Subscription Agreement for Tranche 2 PAM Investment 	Friday 22 March 2013
Dispatch of Notice of General Meeting to BXN shareholders	Friday 29 March 2013
Convening of BXN General Meeting	Monday 29 April 2013
Completion of SSPA and Tranche 2 PAM Investment and dispatch of Public Offer Prospectus (conditional upon approval of resolutions at BXN General Meeting)	Friday 3 May 2013
Lodgement of Prospectus with ASIC and ASX	Friday 3 May 2013
Expiry of standard Prospectus exposure period with ASIC	Friday 10 May 2013
Application for Official Quotation of BXN Shares issued under: <ul style="list-style-type: none"> • SSPA • Tranche 2 PAM Investment 	Monday 13 May 2013
Close of Public Offer	Monday 10 June 2013
Application for Official Quotation of BXN Shares issued under Public Offer	Tuesday 11 June 2013

Please note that the above dates are indicative only and are subject to change.