



Solagran Limited

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7 September, 2005

**Company Announcement
Chairman's Letter to Shareholders**

The Directors of Solagran Limited are pleased to release the Chairman's Letter to Shareholders for disclosure to the market.

Peter Stedwell
Director
On behalf of the Board of Directors

Solagran Limited

Solagran Limited is an Australian company founded in 1995 with the objective of commercialising the results of a research and development program that commenced in Russia in the 1930s, and which has continued, uninterrupted, until the present day. The focus of the research program has been the extraction and utilisation of the "live elements" of tree foliage. Solagran has collectively trademarked these substances using the term Bioeffectives®.

Solagran's technology permits it to obtain many different Bioeffectives from tree and plant sources. One of the highest value Bioeffectives is a class of organic substances known as polyphenols. Polyphenols are naturally occurring precursors of dolichol, which is found in all of the vital organs of the human body, and which plays an essential role in cell metabolism and in supporting the immune system.

Solagran has committed significant resources to the development and testing of Bioeffective R – a Bioeffective comprising polyphenols. Experimental and trials results show that Bioeffective R has a very positive effect on damaged liver cells.



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Dear Shareholder

Two years have passed since our company Solagran Limited announced its intention to bring to the market a natural, non-toxic compound for treating liver disease. I would like to discuss with you the company's achievements during these years.

You have supported and you are continuing to support Solagran, both morally and financially. I would like to express my enormous gratitude to you for your support, your understanding and your patience.

You all know that Solagran Limited is an Australian biotechnology company that traces its roots to Russia, the birthplace of Forest Biochemistry. The axioms of this science were developed more than 75 years ago at the St Petersburg State Forest Technical Academy (the Academy), under the direction of Professor F.T. Solodky.

The intellectual property created over the intervening years has been secured, protected and transferred into Solagran's ownership. Now, in turn, Solagran is generating new intellectual property. Our products are called *Bioeffectives*[®] and we have many promising candidates in our development pipeline.

One of Solagran's most interesting substances is *Bioeffective R*, the finished form of which is called Ropren. It belongs to a class of natural organic compounds known as prenyls. Prenyls are extremely difficult to isolate and their properties are not yet well studied.

Solagran, working in cooperation with scientists from the Academy, is the global leader in the isolation, extraction and application of *Bioeffectives*.

As you may already know, Solagran has been granted an international technology patent for the production of *Bioeffectives* from various plant sources, including pine and spruce. This patented technology is very flexible. It can be adapted for use in any country of the world, depending on the types of raw materials available and the healthcare needs of the population. I am pleased to report that IP Australia (the Australian patents office), has also confirmed its acceptance of our patent application. In doing so, it has endorsed the viability of our international patent, and paved the way for Solagran to obtain an Australian patent. The technology is currently also being patented via Patent Convention Treaty (PCT) provisions in a number of other countries, including the USA, Canada and Germany. We have now received confirmation that the invention satisfies the required PCT criteria for novelty, level of innovation, and industrial utility.

Solagran takes a very measured approach in all its strategic decision-making, to minimise expenditure, and so that every dollar spent brings maximum return for shareholders. This also applies to our patenting strategy. We have many developments in the works which can be protected by international patents. Every innovation already has a Russian Federation patent. These can be taken internationally within a specific timeframe. We will only do this as

and when needed to support Solagran's commercialisation priorities, since any patent protection requires a significant financial outlay. Every dollar spent at this stage must be clearly justified.

During the two years since October 2003, the company has raised \$3.6 million. What have we been able to accomplish with these funds over this time?

1. Randomised, double blind, multi-centre, comparator-controlled Phase II clinical trials of Ropren have been completed. The report has been submitted to the Russian Ministry of Health for evaluation. We are hopeful that we will receive a positive response within three months. This in turn will give a green light to commercialisation of Ropren in Russia and beyond.
2. The clinical trials that we conducted confirmed what earlier preclinical trials had indicated - that *Bioeffective R* has many additional health-beneficial properties. These properties include decreasing blood sugar, the ability to affect enzymes not only in the liver but also in the brain, antioxidant activity, and the ability to normalise immune response. This substance demonstrates truly unique properties over a wide therapeutic spectrum.
3. A three-stage series of animal experiments was completed at the Sechenov Institute of Evolutionary Physiology and Biochemistry in St Petersburg, studying the effect of *Bioeffective R* on the liver and the brain, both in healthy animals and in animal pathology models.
4. The effect of *Bioeffective R* on a common strain of Type A influenza virus was studied in animal models with extremely promising results. This study showed that *Bioeffective R* increases natural resistance to influenza infection. As part of the same program, effects of *Bioeffective R* on adenovirus are also being studied. This is currently "work in progress" and information processing is underway.
5. A clinical efficacy trial was completed on 25 patients with advanced Alzheimer's type dementia. The trial showed very interesting preliminary results, which served as the basis for beginning Australian clinical trials in this area. These trials on healthy volunteers will be conducted by the Centre for Neuropsychology at the Swinburne University of Technology. Preparations are being finalised and the trial is scheduled to begin in September.
6. A vegetable-based capsule end-user dose form of *Bioeffective R* required for the upcoming Swinburne trial was developed and produced in conjunction with Cardinal Health – one of the world's leading softgel manufacturers.
7. The use and trials of *Bioeffective B* are ongoing with the players of the St Kilda Football Club. The feedback from the team continues to be very positive. The players note that use of *Bioeffective B* allows for faster recovery and improved preparation for the next game. Cardinal Health also manufactured the *Bioeffective B* finished dose form – twist-top gel caps for topical application.
8. Negotiations are progressing with Russia's oldest and one of its largest pharmaceutical companies, Farmacon, in relation to licensing the use of *Bioeffective B* for sports recovery applications. Licensing of applications of *Bioeffective R* is also being discussed. Finalising the negotiations, signing the corresponding agreements and initiation of a potential joint trials program, are planned for the end of September, when Farmacon's Chairman and Directors are scheduled to visit Australia.

9. All necessary documentation relating to Solagran's application to list *Bioeffective A* (the first substance in the *Bioeffectives* family) as a New Complementary Medicine Substance with the Australian Therapeutic Goods Administration (TGA) has been submitted. A positive outcome will enable Solagran to market a variety of end user therapeutic products based on *Bioeffective A*. We remain hopeful of approval by this regulatory body.

Over the past two years, in addition to completing its primary clinical trials on the hepatoprotective properties of *Bioeffective R*, Solagran has managed to begin and complete a series of other valuable new experiments and trials, and to obtain new data on the effects and potential of *Bioeffective R* for the human body.

We can say with confidence that this essentially non-toxic compound is not only capable of dealing with serious liver problems, but can also deal with many disorders of the immune and central nervous systems. The data already obtained indicates that *Bioeffective R* may be effective in treating Multiple Sclerosis, Parkinson's Disease and immune deficiencies. New data just received, demonstrating that *Bioeffective R* has powerful interferon inducing properties, opens up an extremely exciting and promising research direction. Interferons are the body's first line of defence against many pathogens, including viral attack.

It may seem surprising to you that *Bioeffective R* is effective in treating a range of seemingly unconnected disease states. But when we consider that the liver performs no less than 500 different functions, in tandem with and in connection with all other parts of the body, the wide therapeutic spectrum of activity of *Bioeffective R* becomes understandable.

Prenols are the biochemical precursor of dolichols, which play a critical role in many vital functions. The following table shows the relative concentration of dolichols in the heart, the liver and elements of the endocrine system.

Distribution of Dolichols in the Human Body

Organ or Gland	Micrograms per Gram Wet Weight
Heart	262
Prostate	268
Thyroid	1,145
Liver	1,226
Adrenals	1,273
Pituitary (Brain)	1,400
Testes	3,226

Source: Wiegandt, H., *Glycolipids: A New Comprehensive Biochemistry*, Elsevier, Amsterdam, 1985.

The liver is the largest and most metabolically complex organ in the human body. Its rich enzymatic system enables the body to metabolise many toxins, including alcohol. The liver also plays a central role in carbohydrate, protein and fat metabolism. It stabilises sugar levels by taking up and storing glucose as glycogen. It packages triglycerides with cholesterol and phospholipids into lipoproteins. Most cholesterol synthesis takes place in the liver.

Cholesterol is required to produce the myelin sheaths that insulate the brains "wiring". Myelin is a lipid or fat insulation layer with the highest cholesterol content of any brain tissue. Myelin sheaths wrap tightly around axons, insulating the neurons and allowing for uninterrupted neurotransmission, speeding messages throughout the brain. As the brain continues to develop in adulthood, and as myelin is produced in greater quantities, cholesterol levels in the brain grow and promote production of a toxic protein that attacks the brain. Studies show that myelin deterioration is far greater in the brains of Alzheimer's patients than in healthy elderly patients.

I would like to note that we also have preliminary data on the effects of *Bioeffective R* on spermatogenesis and on the related rejuvenation of the ageing body.

Whether our company has achieved a little or a lot is now up to you to decide. Proper, objective and thoughtful analysis of Solagran's activities should enable you to see our accomplishments, and recognise both our world leading position and our exciting future.

With your help, we have brought a healthy, active and multi-talented child to the world. Let us not force the child to run before he is capable of walking. Given a little time, he will come up to speed on his own, realising all his in-built potential.

I wish success, health and happiness in all undertakings to all of us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'V. Soultanov', with a horizontal line underneath.

Vagif Soultanov
Chairman of the Board