

**Investment Manager**

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ABN 63 136 901 432

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**BioTech Capital Limited**  
**Annual Report**

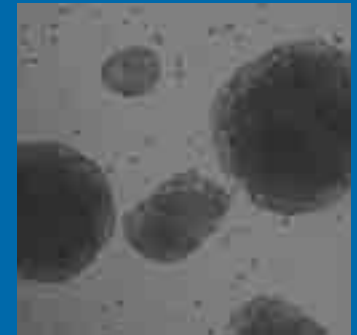
Year ended 30 June 2004



[www.biotechcapital.com.au](http://www.biotechcapital.com.au)  
[www.titanbioventures.com](http://www.titanbioventures.com)

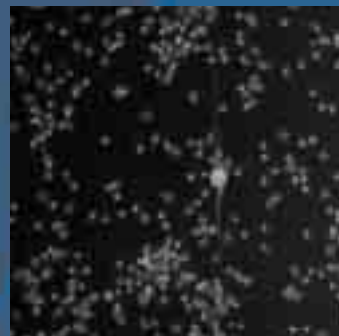
BioTech Capital Limited ABN 45 091 979 172  
Managed by Titan BioVentures Management Pty Ltd ABN 63 136 901 432

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## Chairman's Report



It is my pleasure to present to you the 2004 Annual Report of BioTech Capital Ltd. BioTech Capital is a specialist fund focused on life sciences, investing in Australian companies seeking to develop and commercialise innovative science and technology. Our investment objective is to deliver superior capital growth to our shareholders over the medium to long term by selectively investing in companies that have strong potential growth through the commercialisation of a product, device or platform technology.

We have made two new investments this year, taking our total investment portfolio to ten, and elevating BioTech Capital as a leading specialist investor in Australian biotechnology. Our commitment to the sector is indicative of the strength of Australian researchers who continue to discover and develop world-leading science.

In April, shareholders were asked to vote on several resolutions following the decision by the previous investment manager – Challenger – not to continue its private equity activities. This resulted in the termination of the management contract with Challenger and the appointment of Titan BioVentures as the replacement Investment Manager of BioTech Capital. Titan comprises the core executives that have been responsible for managing the assets of Biotech Capital since its inception ensuring continuity for shareholders.

After a period of generally negative sentiment in the financial markets toward the biotechnology sector that began towards the end of 2000, the past 12 months witnessed resurgence in interest by

investors. However, this rally proved to be short with the second half of the financial year again proving to be challenging.

Accordingly, the share price of BioTech Capital exhibited strong and steady growth increasing from 33 cents to reach a high of 57 cents in October 2003. In line with general market sentiment, the price has drifted down to close at 42 cents on the 30 June 2004.

Much of this downturn in sentiment in the Australian investment market can be attributed to two areas. Firstly, the very buoyant state of world commodity markets, especially oil, has resulted in many investors who traditionally invest in the biotech sector moving their capital into the resources sector in the search for short term capital gains. Secondly, several high profile Australian biotech companies have experienced delays in achieving technical and commercial milestones, which has impacted poorly on confidence.

Nonetheless, the investment strategy of BioTech Capital means the company can take advantage at all points in the investment cycle and weak conditions can often provide an opportunity to gain exposure to very exciting companies on favourable terms.

During the year, BioTech Capital has made two new investments. Both investments have the potential for significant gains to the value of the fund. The first investment was Starpharma, a publicly listed company pioneering in the field of nanotechnology exploiting its strong intellectual property position in the area of dendrimer technology. Starpharma is currently running a human trial for Vivagel, a microbicide-based gel that prevents sexual transmission of HIV. In addition, via its US subsidiary Dendritic Nanotechnologies, the company is aggressively pursuing other applications for its core technology.

The second investment was Continece Control Systems, a start-up company formed to commercialise a new treatment for severe urinary incontinence, which is a significant medical problem without adequate treatment available. Continece Control Systems brings together intellectual property from the University of Melbourne and customised implantable stimulation technology from Cochlear Ltd, one of Australia's leading medical device companies.

With the addition of these two companies the total number of companies within the BioTech Capital portfolio is now ten and the fund is 80% invested. This investment activity was in line with our strategy to continue to build a portfolio of quality companies diversified by technology and lifecycle. As the Fund becomes increasingly committed we expect the rate of new investment will slow. We will continue to assess new opportunities based on strict investment criteria. Additionally a portion of the cash reserves in the fund will be preserved for consideration in second round funding opportunities with our existing portfolio companies.

I believe the outlook for the biotechnology sector is strong based on increased awareness, closer to market opportunities and growing investor support. The environment is compelling for growth. There is an aging population in the world's wealthiest countries and the pharmaceutical industry is challenged by a shrinking pipeline of new drug candidates. Biotechnology companies are well positioned to meet this demand with a growing number of later staged products in development and with more profitable and larger participants in the industry. A major jump in private funding for the biotechnology sector in 2003 has also served to boost the cash reserves of the sector improving the progression options for companies.

With a well established reputation as one of the leading specialist funds in the sector and with an outstanding and growing network we are positioned well to continue to capture excellent investment opportunities. We will actively work with our existing portfolio to maximise shareholder return and seek to exit investments at the appropriate time to crystallise investment gains.

I thank you for your support as shareholders and look forward to continued success over the next 12 months. I would also like to invite you to attend our Annual General Meeting on Friday 19 November at 2pm. The venue is the AGL Theatre, Museum Of Sydney (corner Bridge and Phillip Street Sydney).

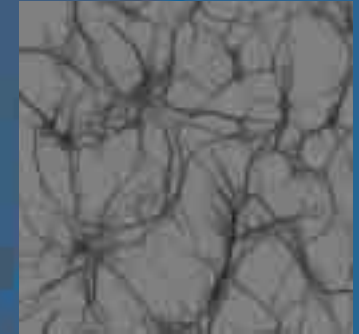


**Bill Ireland**  
Chairman

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BioTech Capital Ltd

## Investment Manager's Report



### Introduction

Titan BioVentures (Titan) was appointed Manager of BioTech Capital by shareholders earlier this year. Continuity of management has been maintained as the core executives of Titan have been involved with the management of the fund since inception.

Titan has since embarked on an expansion strategy to ensure that BioTech Capital achieves the best long term results for shareholders. This has included expansion of the resources in the team and the opening of a London office co-located with one of the United Kingdom's leading life-science investment groups.

Increased resources allow us to continue to work actively with an expanding portfolio, and the London office will provide our portfolio companies with a direct link into the UK financial markets as well as a resource to directly build relationships with industry contacts relevant to our portfolio.

We believe this will add considerable value to our investee companies.

### Global Market Review

The 2003-2004 year represented a period of recovery for the global biotechnology market following an economic slowdown in 2001 and 2002 which hit the biotechnology industry particularly hard. Further exacerbating the market difficulties of that time were a number of clinical trial failures, fewer new drug approvals and a sense of disappointment from many investors regarding

breakthroughs that were not immediately translated into new miracle cures, such as the mapping of the human genome.

In the first half of 2003-2004 the biotechnology industry demonstrated its resilience with a rebound in stock prices driven by new drug approvals, stronger than expected financial performance, and active capital raising including Initial Public Offer (IPO) activity.

The Biotechnology Industry Organization (BIO) recorded 25 new drug approvals by the Food and Drug Administration (FDA) from the biotechnology industry in 2003. This was a 25% increase from the previous year. Amongst these new approved drugs, 21 contained active substances that have never before been approved for marketing in any form in the US. These substances are known as New Molecular Entities (NMEs) and the large percentage of NMEs amongst the new drug approvals is an important indicator of the innovative research and development the biotechnology industry is undertaking. These drugs join other biotech drugs already on the market which have become the new standards of treatment for diseases such as diabetes, anaemia, heart disease and rheumatoid arthritis.

A number of top-tier companies within the sector posted better than expected earnings growth during 2003 including Amgen, Genentech and Genzyme whom all posted earnings per share (EPS) growth of 30% or more.

The IPO market strengthened during the 2003-2004 period with more than 25 new biotechnology companies listing on the US public markets. In 2003 seven biotechnology companies listed and to date in 2004 more than 20 have completed IPOs and a significant number of other companies having filed to list on NASDAQ. The response from the market has been mixed and while several companies have had strong secondary market price performance many are trading below their IPO issue price. Overall, investors have been discriminatory in their choices with a heavy bias towards companies with products in or close to market. This is in stark contrast to the last wave of biotech IPOs during the late 90s when the majority were platform drug discovery technology companies.

The biotechnology sector experienced its second-best financing year in history in 2003 raising more than US\$16.7 billion after a two-year financing drought. This is likely to lead to renewed investment in research and development discovery budgets or a strategy of in-licensing compounds.

### **Australian Market**

The Australian biotechnology market experience has mirrored that of the US with an increase in market capitalisations, an opening of the IPO window with mixed aftermarket performance, and a series of financings provided to listed biotechnology companies.

The S&P/Australian Stock Exchange Healthcare Index grew in excess of 20% during the 2003-2004 financial year with a number of companies experiencing strong growth including BioTech Capital investee Clinical Cell Culture (C3), whose share price increased fourfold within the last financial year.

At the same time, companies that failed to meet investor expectations performed very poorly, widening the gap between the best and worst performers in the sector.

Similarly to the US market, in excess of 20 biotechnology and medical device companies listed on the Australian Stock Exchange. One of these companies was BioTech Capital investee Alchemia. However for those companies who successfully listed, share price performance post IPO has been

generally weak with relatively few companies trading above their issue price at the time of writing.

There was also a significant amount of finance raised by those biotechnology companies listed on the exchange with many companies successfully shoring up balance sheets; however the amounts raised were generally modest in size and usually less than \$10 million.

Limited cash resources or poor access to capital in the domestic financing market have driven biotechnology companies in Australia to pursue other avenues to ensure continued commercial development.

A number of partnerships were announced in the last 12 months led by AMRAD's collaboration with Merck on a molecule to develop therapeutics for sufferers of asthma. This deal is potentially worth US\$112 million plus royalties and is a major milestone for the Australian sector and industry in general.

As the biotechnology sector matures in Australia we expect to see more companies with drugs in clinical trials. This is evident in 2003-2004 with at least 15 phase I and phase II clinical trials in progress.

### **BioTech Capital**

BioTech Capital Limited listed on the Australian Stock Exchange on the 29th August 2000. The Fund is one of the premier suppliers of informed capital to the life sciences sector within Australia. It is a specialist investment vehicle aimed at both individual and institutional investors who wish to gain exposure to the life sciences sector via a diversified portfolio managed by an informed team focused solely on life sciences investment.

BioTech Capital considers investment opportunities in companies across the spectrum of the life science industry from start-up companies through to Private Investments in Public Entities (PIPEs). Our core focus is on unlisted investment opportunities and this is reflected strongly in our portfolio. However we may make an investment in the listed sector when we believe an excellent investment opportunity is available. A hallmark of our investing style into listed companies is that we are generally able to invest on terms that are more favourable than our shareholders could normally access independently such as favourable pricing terms, issuance of options and requests to hold Board positions.

## Performance

The share price of BioTech Capital rose solidly during the 2003-2004 financial year increasing 27%, and outperforming comparable companies (Chart 1), the NASDAQ Biotech Index (Chart 2), and matching the performance of the ASX Healthcare Index.

CHART 1

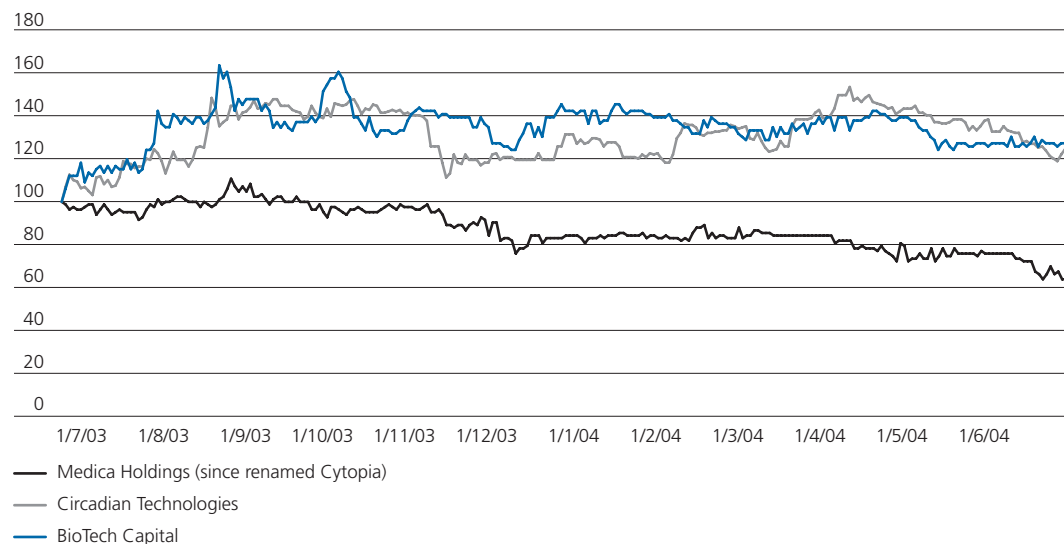
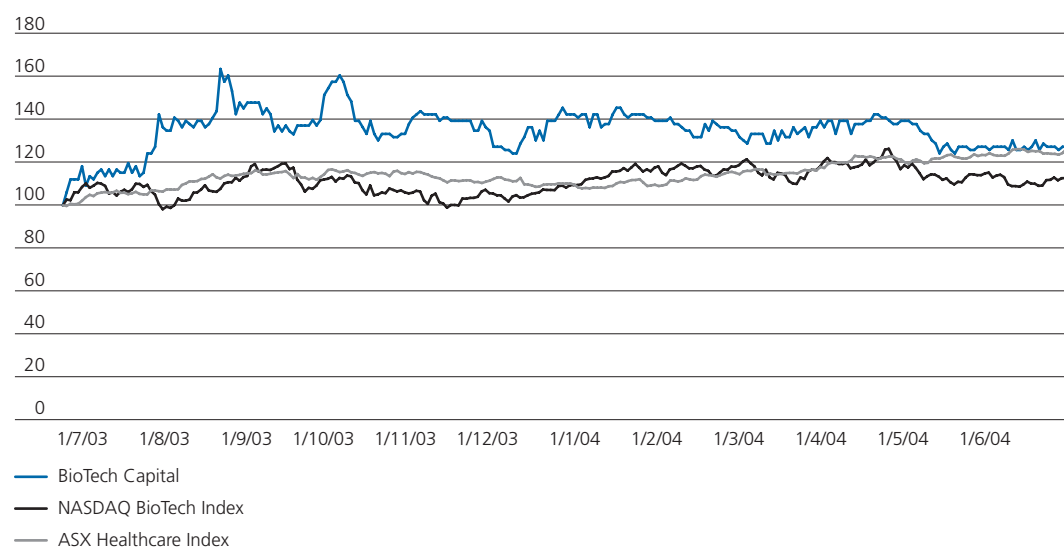


CHART 2



## Investment Activity

The network that BioTech Capital has built extends across academia, consulting, legal, venture capital, investment banking and the public markets. It has continued to be an enormously valuable asset covering the spectrum of an investment, from evaluation to exit. Over the course of the year our network continued to provide a strong conduit of deal flow for the investment team to review. As a result new investments were made in two companies – Starpharma and Continece Control Systems. The fund also made a follow-on investment in existing portfolio company XRT.

Business:	Drug discovery
Location:	Melbourne, Australia
Date of first investment:	March 2004
Board seat:	No
Stage of investment:	Public
Funds invested:	AS\$2,520,000
Equity ownership:	2.7%

Investment highlights: Very large potential market opportunity, powerful enabling technology, valuable intellectual property, and excellent management team.



**Starpharma** is a publicly listed company on the Australian Stock Exchange and is a world leader in the field of nanomedicine. Starpharma is developing properties of compounds known as dendrimers across a range of applications including therapeutics, drug delivery and other non-pharmaceutical applications. Its lead product, Vivagel is a microbicide that protects against contracting HIV through sexual activity. Vivagel is currently in clinical trials. Starpharma is also a 49.9% shareholder in US-based Dendritic Nanotechnologies, which is a large generator of valuable intellectual property in the area of dendrimers with several non-therapeutic applications under active development.

BioTech Capital is now a Top 10 shareholder in Starpharma with an investment of \$2,520,000 in a share placement with gross proceeds to Starpharma of approximately \$7,500,000. The issue price was at a discount to market price and with an issue of options issued on a 1:2 basis to participating investors. The funds of the placement are expected to be directed towards corporate opportunities arising out of Dendritic Nanotechnologies Inc.

We have been following Starpharma for several years and have been impressed with the calibre of management, the platform technology and intellectual property commercial potential of the technology. It is the second time BioTech Capital has made a Private Investment into a Public Entity (PIPE). The first PIPE investment was into tissue engineering company Clinical Cell Culture.



Business:	Medical device
Location:	Sydney, Australia
Date of first investment:	June 2004
Board seat:	Yes
Stage of investment:	Start Up
Funds invested:	A\$2,000,000
Equity ownership:	22.5%

Investment highlights: Large potential market opportunity, a solution for a market with an unmet medical need, and attractive valuation entry point.

The second investment this year was in **Continecne Control Systems (CCS)**, a start-up company formed to commercialise a new treatment for severe urinary incontinence, the involuntary loss of urine from the bladder. This treatment will address a currently unmet medical need for large numbers of people around the world where other surgical treatments have failed.

CCS combined the intellectual property and science from the University of Melbourne and customised implantable stimulation technology developed by Cochlear Ltd, the world leader in cochlear implants. The company has developed a management team who will be leading the commercialisation effort with considerable experience in the implantable medical device field.

Biotech Capital invested \$2,000,000 out of \$3,000,000 funding available in this investment round securing a 22.5% equity stake. We also have the right to appoint two directors to the board, and reserved the right to invest a further \$2,000,000 into CCS subject to successful completion of pre-clinical studies.

Additional funding of \$500,000 was invested into our existing portfolio company XRT to facilitate the relocation of the company to the United Kingdom to be in closer proximity to relevant industry partners and customers.

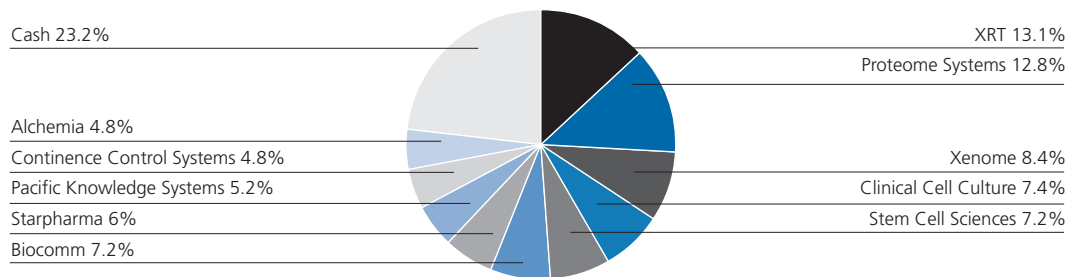
## Portfolio Analysis

BioTech Capital's investment portfolio contains a total of ten companies:

- Alchemia
- Biocomm
- Clinical Cell Culture
- Continecne Control Systems
- Pacific Knowledge Systems
- Proteome Systems
- Starpharma
- Stem Cell Sciences
- Xenome
- XRT

The chart below indicates the current weighting of each investment in the portfolio. The fund is approximately 80% invested with investments in seven private companies and three public companies listed on the Australian Stock Exchange.

### PORTFOLIO HOLDINGS



BioTech Capital has board level representation on seven of the ten portfolio companies – Biocomm, Clinical Cell Culture, Continecne Control Systems, Pacific Knowledge Systems, Stem Cell Sciences, Xenome and XRT.

The composition of the portfolio is also well diversified by investment stage, scientific focus and product development. In the portfolio we have companies with strengths in emerging technology fields such as nanotechnology, stem cell biology, tissue engineering and glycobiology. Some of the companies are in drug discovery while others are developing enabling technology platforms or medical devices. Additionally the companies range in maturity from private start-up companies to listed entities. This diversification along multiple axes has been in line with our original target of constructing a diversified portfolio of 10-20 investments to give investors easy access and broad exposure to a group of quality investment opportunities in the life sciences sector.

## Portfolio Progress Report

In general, the portfolio companies have been successful in achieving a number of value adding milestones over the 2003-2004 financial year including scientific and technical advances, revenue growth, establishing partnerships and collaborations and attracting new investment. In addition to the earlier comments on new investees Starpharma and Continence Control Systems the following provides a synopsis on each company's activities.



Business:	Combinatorial chemistry, carbohydrates
Location:	Brisbane Australia, Redwood City, California USA
Date of first investment:	February 2001
Board seat:	No
Stage of investment:	Expansion
Funds invested:	A\$2,000,000.
Equity ownership:	3.1%

Investment highlights: Compelling technology, strong patent portfolio, alliances with Dow Chemical and American Pharmaceutical Partners, growing pipeline of drug and nutraceutical compounds, and established US presence.

**Alchemia** was successful in listing on the Australian Stock Exchange in December 2003 raising approximately \$21 million to further develop the company's pipeline of product candidates. The company has partnered with Dow Chemical and American Pharmaceutical Partners to develop and then market in North America its synthetic heparin product.

Alchemia has continued to make good progress with the development of this generic drug and announced it is on track to achieve commercial scale up of the compound to FDA standards by June 2005. This is an important step towards the company being able to market its product in the key United States market during 2008 following the expiration of patent protection. It is expected that the total market size at that time will exceed US\$4 billion.

Alchemia also announced some success in its internal drug discovery efforts identifying molecules with favourable anti-cancer and anti-infective properties.

Alchemia has core expertise in the chemistry of carbohydrates, a field more recently called Glycomics. Carbohydrates, which include sugars and starches, are found on the surface of every cell in our body. They play a critical role in the biochemical processes of human health. Alchemia's technology makes it possible to explore, develop and exploit the potential of carbohydrates in drug discovery.



Business:	Intellectual property commercialisation
Location:	Melbourne, Australia
Date of first investment:	June 2002
Board seat:	yes
Stage of investment:	Early
Funds invested:	A\$3,000,000.
Equity ownership:	24%

Investment highlights: Unique business model, access to opportunities in Victoria which is high generator of early-stage life science intellectual property, attractive investment structure, and high calibre of co-investors.

**Biocomm** successfully concluded its first investment in 2004 as part of a syndicate investing in Cryptopharma. Cryptopharma is developing compounds with broad potential as anti-inflammatory agents. The current focus is on agents with potential in the treatment of asthma, pulmonary fibrosis and other chronic lung inflammatory diseases. Biocomm has also been successful in building a significant portfolio of clients for technology and licensing deals and continues to increase its profile both nationally and internationally securing clients across Australia as well as in New Zealand, Ireland and the United Kingdom.

Biocomm is one of Australia's leading technology management and commercialization organizations. It undertakes a wide range of tasks to achieve these aims including providing seed funding, scientific and commercial assessment and licensing.

Members and partners of the Biocomm network include BioTech Capital, GBS Venture Partners, Macquarie Bank, Queensland Investment Corporation, Monash University's Faculty of Medicine, University of Melbourne, RMIT, Baker Heart Research Institute of Medical Research, Prince Henry's Institute of Medical Research, Victorian College of Pharmacy, Peter MacCallum Cancer Centre, Mental Health Research Institute, Murdoch and Children's Research Institute, Neurosciences Victoria and St Vincent's Institute of Medical Research.

Business:	Tissue engineering
Location:	Perth, Australia
Date of first investment:	August 2003
Board seat:	yes
Stage of investment:	Expansion
Funds invested:	A\$3,094,101
Equity ownership:	16.4% (following C3s recent placement)

Investment highlights: Strong management with appropriate European links, large potential market, attractive valuation entry point (over 1300 patients have already been treated with the technology), rich pipeline of products and research projects, and sufficient cash reserves.



**Clinical Cell Culture (C3)** has had a particularly strong year in developing its business and is gearing up for significant expansion into the European market. It has formed a European sales network with existing distribution channels to customers and significant experience in the sales of products to burn centres and the plastic surgery market. C3 has been successful in obtaining approval for CellSpray and CellSprayXP to be used in a number of European markets including Germany, Austria, Switzerland and the Netherlands. Within the next 12 months product approvals will also be sought in the USA and European markets for its Recell technology. At the time of writing C3 had just closed an approximately \$10 million capital raising which will be used for funding the expansion of the sales and marketing network in Europe and the US.

Clinical Cell Culture (C3) is an ASX-listed tissue engineering company. The company has a pipeline of products to treat burns, wounds and other defects requiring skin replacement. The company's lead products are CellSpray®, CellSpray®XP and Recell®. These products have significant advantages over existing competing products including rapid culturing, and time and ease of use which result in an improved outcome for the patient. C3 also has other products in development for the large chronic wounds market, sterility testing and continuing improvements to its existing products.

Business: Informatics, pathology industry  
 Location: Sydney, Australia  
 Date of first investment: December 2000  
 Board seat: Yes  
 Stage of investment: Early  
 Funds invested: A\$2,197,574  
 Equity ownership: 19.8%

PACIFIC KNOWLEDGE SYSTEMS

Investment highlights: Compelling and novel technology, clear market application in the pathology industry, and demonstrated applications to other industries.

**Pacific Knowledge Systems (PKS)** is the leading provider of clinical decision support systems for the pathology industry. Over the last year it has deployed the first application of its software platform, LabWizard Clinical to a number of pathology laboratories around Australia and recently was successful in gaining a reference site in the European market. This is an important milestone for the company as it attempts to leverage off the extensive research and development that have gone in to the building of the software platform to date. The European markets represent a lucrative market opportunity and a reference site will allow the company to gather the data necessary to assist with the sales process in offshore markets. Usage rates and revenue for the company continue to gain momentum as the product is utilised more by existing customers and new customers are obtained. The company has also broadened its product offering with the development of a new product LabWizard Data Entry Auditor. The company is presently evaluating potential strategic acquisition opportunities that will result in increased revenues, cash-flow and profits and a broadening of the product range.

PKS has commercialised technology known as Ripple-Down-Rules into a product specifically designed for the pathology industry known as LabWizard™. This product is designed as a productivity tool for pathologists in the interpretation of pathology results and is in use at a range of sites across Australia. The underlying technology has multiple applications providing an opportunity for developing other products.

Business: Proteomics tools, informatics, discovery  
 Location: Sydney, Australia; Boston, USA; Tokyo, Japan  
 Date of first investment: September 2000  
 Board seat: No  
 Stage of investment: Late  
 Funds invested: A\$5, 375,000  
 Equity ownership: 2.23%

Investment highlights: Very strong scientific team, world leaders in proteomics, strong corporate collaborations, strong intellectual property position.



**Proteome Systems Limited (PSL)** has continued to leverage off its leading proteomics expertise to enter into a number of collaborations to expand its suite of products. The company has also formed

further collaborations utilising Proteome Systems products for research and discovery programs in a number of disease areas including Huntington's disease and Progeria.

Proteome also appointed two new directors with significant experience in management of listed companies to its board as part of its preparation to seek an IPO on the Australian Stock Exchange (ASX). The company lodged a prospectus with the ASX in August and despite a very difficult climate for new listings achieved a fully underwritten \$20 million capital raising. The company listed on 30 September 2004.

Proteome Systems Ltd is a leading proteomics technology and discovery company. With its technology partners, Proteome Systems has developed and commercialised a comprehensive solution for high throughput proteomics which is available as a total solutions package, ProteomIQ. These technologies, integrated by a proprietary and sophisticated bioinformatics system, BioinformatIQ, are implemented in Proteome Systems' discovery programs in the areas of cystic fibrosis, cancer, infectious disease and aging. Partnerships are in place with IBM, Shimadzu, Thermo-Finnigan, Sigma-Aldrich, Millipore, Bayer Crop Science, Nestle and the Cystic Fibrosis Foundation (USA).

Business: Stem cells, regenerative medicine  
 Location: Melbourne, Australia; Edinburgh, UK; Kobe, Japan  
 Date of first investment: August 2003  
 Board seat: Yes  
 Stage of investment: Expansion  
 Funds invested: A\$3,000,000  
 Equity ownership: 14.5%

Investment highlights: Collaborative R&D programs with world-leading consortium of stem cell researchers, novel technology, strong intellectual property portfolio, and commercial validation through big pharma partnerships.



**Stem Cell Sciences (SCS)** has also had a notable year achieving significant technical and commercial milestones. The company has successfully re-located its headquarters to Edinburgh (United Kingdom) building on a very solid relationship with one of the world's leading stem cell biology research centres. The company is presently focused on several major initiatives which, if successful, should result in significant value generation for SCS shareholders.

SCS will focus on growing its core expertise in stem cell culture, differentiation and selection of purified cell types for drug discovery and optimization services to the pharmaceutical sector. SCS' longer-term plans will apply these same core technologies to the delivery of cell-based regenerative therapies for diseases such as Parkinson's and diabetes.

SCS's technologies have already been licensed to world leading pharmaceutical companies such as Aventis and Glaxo Smith Kline, as well as other biopharmaceutical companies.

SCS relocated its senior management to Edinburgh for closer proximity to key scientific partners and potential customers. This has also been beneficial in allowing SCS to participate in key European Research programs such as the European Union Framework Six projects. These projects have received significant funding and the Intellectual Property generated from participation in these projects is likely to be considerable.

Business:	Drug discovery, neuroactive compounds
Location:	Brisbane, Australia
Date of first investment:	November 2001
Board seat:	Yes
Stage of investment:	Early
Funds invested:	A\$3,500,000
Equity ownership:	21.0%

Investment highlights: Strong intellectual property position, strong management and scientific team, novel technology, low competition, and extensive compound library.

*xenome*

Xenome continued to progress its pipeline of therapeutic products during the past year and received a \$3.2 million START grant from the Federal Government to accelerate the development of its chronic pain drug Xen2174. Xenome filed an Investigational New Drug (IND) Application with the US FDA in April 2004. This application triggered a further \$2 million investment by the Queensland BioCapital fund and the drug commenced its Phase I clinical trials in July 2004. Xenome has also been successful in attracting a leading US researcher to lead the clinical trials.

Xenome is biopharmaceutical company focused on the discovery and development of novel therapeutics based on the components of venoms and toxins. The company has an exclusive worldwide license to a large variety of novel venom peptide compounds and a technology platform that incorporates expertise in genomics, peptide chemistry and pharmacology. The company has a number of molecules under development and also has rights to any income derived by the University of Queensland from a drug lead called AM336.

Business:	Imaging technology
Location:	Melbourne, Australia
Date of first investment:	March 2001
Board seat:	Yes
Stage of investment:	Expansion
Funds invested:	A\$4,000,000. Additional A\$1,500,000 invested via convertible notes.
Equity ownership:	61.56% (upon conversion of convertible notes)

Strong intellectual property position, large markets, low technical risk, restructure of the business toward IP licensing model has significantly reduced cash flow.



During the past financial year XRT has commenced steps towards a relocation of its business to the UK market. This will ensure closer proximity to relevant market opportunities and it has been successful in opening a number of discussions with European companies who wish to collaborate on further research and development efforts and the distribution of XRT product. The move has also resulted in greater interest from the financial markets in the UK and the company will be looking for further investment funds sourced from this market. A new management team is currently being assembled.

XRT was formed as a spinout company from the leading Australian research organization, CSIRO.

XRT is a global pioneer in ultra-high resolution imaging based on its state-of-the-art patented phase contrast imaging techniques. The technology allows for imaging of unparalleled quality in a range of medical and industrial applications.

### Valuation

The valuation policy BioTech Capital adopts is the industry-standard Australian Venture Capital Association (AVCAL) guidelines. For the valuation of our holdings in listed companies the policy is to apply a discount to the market price dependent upon the size of our holding in the company. For those investments where we hold a significant percentage stake in the company we apply a greater discount. The Board has adopted a conservative stance with regard to the valuation of unlisted investments continuing to maintain the valuations at cost in the absence of a material adverse event.

### Conclusion and Outlook

The fundamental landscape for the biotechnology sector remains encouraging. However, expectations for the industry are high and significant volatility is likely to remain a feature of investing in the sector in the foreseeable future. A long term investment view is advised because of this inherent volatility in the sector.

There are multiple forces driving the prospects of the biotechnology industry. The positive news flow from a number of recent high profile product launches in the US, and European markets is having a positive affect. Maturing product pipelines across the sector with a record number of new products under development and higher revenues linked to those products already on the market is also helping the sector. Increased partnering interest from the major pharmaceutical companies and stronger balance sheets across the sector due to recent capital raising activities are all helping to drive the prospects of the biotechnology industry.

BioTech Capital's portfolio companies are making good progress overall and are generally well funded to meet their next significant commercial milestones. Attainment of these milestones will continue to drive the intrinsic value of the portfolio higher and enable us to seek exit opportunities. Because of the nature of the biotechnology industry there will be companies in the portfolio that do not perform as well as we would have hoped while others outperform, this is the underlying reason for our portfolio approach to investment. With the current visibility on the portfolio's development we believe the outlook remains to be very positive overall from an investment return viewpoint.

The objective for the management team over the next financial year is two-fold:

- (i) Continuing to source and evaluate potential investment opportunities and
- (ii) as the portfolio begins to mature to actively seek exits where appropriate for several of our investments.

# Financial Report

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This financial report covers Biotech Capital Limited.

Biotech Capital Limited is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the entity's operations and its principal activities is included in the directors' report on pages 19 – 25.

# Directors' Report



The directors of BioTech Capital Limited present their report on the audited financial statements for the year ended 30 June 2004.

## Directors

The following persons were directors of BioTech Capital Limited ("the company") during the whole of the financial year and up to the date of this report, unless stated otherwise:

- William Edward Baker Ireland (Chairman)
- Harry Karelis
- Irene Yun Lien Lee (ceased 1 July 2004)
- Antony Basten
- Alastair John Davidson
- Lisa Margaret McIntyre (commenced 1 July 2004)

## Principal Activities

The principal continuing activities of the Company consist of investing in entities operating in the biotechnology / life-science sectors. The Company is registered under the Pooled Development Funds Act 1992.

## The following activities occurred during the year:

**July 2003** – \$3.0 million was invested in Stem Cell Sciences, a global leader in the field of stem cell research. This investment provided the Company with a 14.5% interest and a board seat.

**August 2003** – \$3.1 million was invested in ASX-listed tissue engineering company, Clinical Cell Culture ('C3'). C3 is best known for its "spray on skin" technology and develops and distributes tissue-engineered cellular products for autologous skin replacement. This investment provided the Company with an 18.9% interest and options, which upon exercise would see the total investment in C3 rise to approximately \$4 million.

**November 2003** – A further \$500,000 was invested in XRT, a global pioneer in ultra-high resolution imaging based on its state-of-the-art patented phase contrast imaging techniques.

**October 2003** – The Board of Directors resolved to proceed with the issue of bonus options to shareholders registered as at 10 October 2003. Eligible participating shareholders were granted a bonus issue of one new option for every two fully paid ordinary shares held. These options have an exercise price of \$0.55, expire 10 October 2006 and each option is convertible into one ordinary share.

**October 2003** – 15,269,805 fully paid ordinary shares were issued to new shareholders on the exercise of Sept 2003 options at an exercise price of \$0.50. This increased the number of issued fully paid ordinary shares to 95,299,905.

**March 2004** – \$2.5 million was invested to acquire a 2.7% interest in nanotechnology company Starpharma Holdings. Starpharma is one of the world's leading nanotechnology companies exploiting properties of compounds known as dendrimers across a range of applications including therapeutics, drug delivery and other non-pharmaceutical applications.

**April 2004** – Following approval by shareholders and other regulatory approval, the Company bought back the investment management rights and repurchased the shares and options held by Challenger Financial Services Group Ltd and its related entities. The repurchased shares and options were then cancelled. This reduced the number of issued fully paid ordinary shares to 89,354,905. A new management agreement appointing Titan Bioventures Management Pty Ltd to manage the Company's investments, was then entered into.

**June 2004** – An investment of \$2.0 million was made to acquire a 22.5% stake in Continnence Control Systems International ('CCS'). CCS was formed to commercialise a new treatment for severe urinary incontinence based upon intellectual property from the University of Melbourne and customised implantable stimulation technology developed by Cochlear Ltd.

**Post balance date** – Investee company, Proteome Systems Ltd ('PSL'), has lodged a prospectus with the Australian Stock Exchange for an underwritten \$20 million capital raising and subsequent listing. The proposed issue price of \$1.20 implies a post-listing valuation of \$120 million for PSL and as a consequence it has been considered necessary to revalue the Company's investment in PSL downwards by approximately \$3.4 million. The full effects of the write-down have been included in the year ended 30 June 2004 operating results and are reflected in the financial position at 30 June 2004.

On 4 August 2004, investee company Clinical Cell Culture Limited (C3) announced that an institutional and shareholder placement of 23,434,949 shares had raised \$9.842 million. This was closely followed by the raising of a further \$4 million through shares applied for under C3's Share Purchase Plan.

BioTech Capital did not acquire additional shares under either of these new capital raisings, and the price of \$0.42 per share paid under the issues compares favourably with the net value of \$0.407 per share at which the Company has valued its C3 investment at balance date.

## Review of operations and results

Revenue from ordinary activities for the year was down 8% to \$957,028 on the same period last year (2003: \$1,038,587). Operating loss after income tax for the same period increased 147,865% to a loss of \$3,990,868 (2003: \$2,699 loss). The results reflect an expense of \$3.4 million (2003: \$Nil) covering the write down of the investment in Proteome Systems and an expense of \$606,800 (2003: \$Nil) in terminating the Challenger management agreement. The net tangible asset backing per share as at 30 June 2004 equated to 52.4 cents (2003: 48.8 cents).

During the year, at an extraordinary general meeting held on 8 April 2004, shareholders voted on several resolutions that culminated in the selective buy back of shares and options held by Challenger Financial Services Group Limited, for a total consideration of \$3,180,575. As a related issue, the investment management agreement with Challenger Biotech Management Limited was terminated at a cost of \$606,800 (net of GST) to BioTech Capital.

A separate resolution was passed appointing Titan Bioventures Management Pty Ltd as the new investment manager. The core investment management team then transferred from Challenger to Titan, ensuring continuity in the management of the investment portfolio. As part of the new management contract, BioTech Capital is entitled to a 30% share of any investment management revenue generated by Titan from future life science funds under management. This also extends to any performance fees paid by BioTech Capital to Titan.

## Dividends

No dividends were paid or declared during the year (2003: Nil)

## Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

## Information on Directors

Director	Experience	Special Responsibilities Ordinary Shares	Particulars of Directors' Interest	Options
W E B Ireland	Expertise gained in stock and option trading, project development and financing and marketing new business ventures. Managing Director of Mariner Financial Ltd.	Non Executive Director and Chairman	50,000	25,000
A J Davidson	B.Ec(Hons) ACA. Has held executive positions in the banking and financial services industry for over 20 years in the UK, USA and Australia. Managing Director, Aurora Funds Management.	Non Executive Director	100,000	50,000
H Karelis	B.Sc(Hons), MBA, ASIA, FAICD, CFA. Has a background in financial analysis and funds management both in Australia and overseas.	Executive Director	800,000	400,000
I Lee	BA, Barrister at law from Gray's Inn London. Has held senior positions in the investment banking and funds management industry for 22 years in the UK, USA and Australia. Currently is a non executive director of several listed and unlisted companies including QBE Insurance Group, TEN Network and Record Investments. Is also a Member of the Takeovers Panel and a Trustee of the Art Gallery of New South Wales.	Non Executive Director (ceased to be a director on 1 July 2004)	160,000	80,000
A Basten	Professor, AO, Fellowship of Australian Academies of Science and Technological Sciences and Engineering. Is a highly distinguished clinician/scientist. Currently Executive Director of the Centenary Institute of Cancer Medicine & Cell Biology, Professor of Immunology at the University of Sydney, Director of central Sydney Area Health Clinical Immunology and Allergy Service and Chief Scientist at the biotech company CenTec.	Non Executive Director	10,000	5,000
L M McIntyre	Dr Lisa McIntyre has over 12 years' consulting experience for the life sciences and biopharmaceutical industries, and has advised many of the world's leading biotech companies. As a director of L.E.K. Consulting, she leads the Asia Pacific Life Sciences practice and is an adviser to the New Zealand Government on issues such as commercialisation strategies for New Zealand's domestic biotechnology sectors. She is a director of the Garvan Institute of Medical Research and a regular presenter at AusBiotech Conferences.	Non Executive Director (commenced as a director on 1 July 2004)	13,000	6,500

## Meetings of Directors

The number of meetings of the company's board of directors held for the year ended 30 June 2004, and the number of meetings attended by each director were:

	Number of Meetings whilst person a Director	Number of meetings Attended
W E B Ireland	9	8
A J Davidson	9	9
H Karelis	9	6
I Lee	9	9
A Basten	9	9
L McIntyre	0	0

## Directors' Remuneration

Non – Executive Directors of Biotech Capital Limited	Director's base fee \$	Total \$
W E B Ireland (from 1 July 2003)	20,000	20,000
I Lee	20,000	20,000
A Basten	20,000	20,000
A J Davidson	20,000	20,000
L McIntyre (from 1/07/2004)	20,000	–

Executive Directors of Biotech Capital Limited	Director's base fee \$	Total \$
H Karelis	–	–

## Insurance of Officers

During the financial year, the company paid a premium of \$47,829 to insure the directors and secretaries of the company.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company or a related body corporate.

## Matters Subsequent to the End of the Financial Period

The following matter has arisen since 30 June 2004:

- The Board of directors resolved to write down the company's investment in Proteome Systems Limited by \$3.4 million, to include the written down value in the accounts at 30 June 2004, and to show the amount of the write down as an expense in the year's operating results.
- On 4 August 2004, investee company Clinical Cell Culture Limited (C3) announced that an institutional and shareholder placement of 23,434,949 shares had raised \$9.842 million. This was closely followed by the raising of a further \$4 million through shares applied for under C3's Share Purchase Plan. BioTech Capital did not acquire additional shares under either of these new capital raisings, and the price of \$0.42 per share paid under the issues compares favourably with the net value of \$0.407 per share at which the Company has valued its C3 investment at balance date.

## Likely Developments and Expected Results of Operations

Further information on likely developments in the operations of the company and the expected results of operations have not been incorporated in the Directors report because the directors believe it would be likely to result in unreasonable prejudice to the company.

## Environmental Regulation

The company is not subject to any significant environmental regulation in respect of its activities.

## Shares Under Option


At the date of this report, Biotech Capital Limited had 44,677,419 unissued ordinary shares under option, all of which options are listed. The options expire on 10 October 2006 and have an exercise price of \$0.55. The options may be exercised at any month end up to 30 September 2006 and then on their expiry date, unless otherwise determined by the Board in its absolute discretion.

## Auditor

PricewaterhouseCoopers have indicated their intention to resign as the company's auditor, subject to ASIC approval which will be duly sought.

Pannell Kerr Forster have expressed willingness to be appointed as the new auditor if and when PricewaterhouseCoopers' resignation becomes effective.

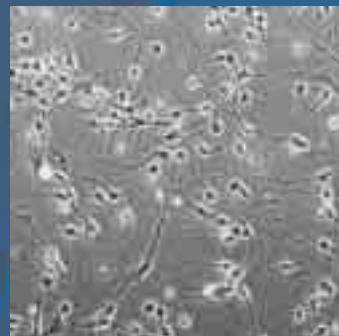
This report is made in accordance with a resolution of the directors.



**A J Davidson**  
Director

Sydney, 31 August 2004

## Corporate Governance Statement



Commensurate with its commercial objectives as a Pooled Development Fund, and the scale of its resources, BioTech Capital Limited has in place corporate governance practices which pursue best practice standards and recognise the 'ten core principles' recommendations of the ASX Corporate Governance Council.

### **A Foundation for Effective Management and Board Oversight of Management:**

The Board's responsibilities include:

- setting down the Company's main commercial goals and strategies for achieving these goals;
- ensuring the overall financial, human and material resources needed to properly pursue the business goals, are provided;
- clarifying the individual responsibilities of board members and managers to ensure personal accountability and to place restraint on the authority of each individual;
- appointing and removing the Chief Executive Officer;
- regularly monitoring financial performance and the achievement of short term objectives;
- ensuring implementation of suitable internal control, compliance and complaints handling systems, monitoring these and ensuring their continuing effectiveness.

### **Structuring of the Board to Add Value:**

The Board is structured to provide:

- an adequate number (currently 5) of experienced, capable and committed individuals who clearly understand their personal commercial and legal responsibilities as directors, and are able to operate very effectively as a Board under the needs and demands of the company's particular field of specialisation;
- directors possessing a broad range of academic, technical, financial and administrative skills, who are highly competent in dealing with the Company's business and administrative needs, and the persistent challenges posed by change and emerging issues;
- directors who have the ability to effectively review and challenge management performance, and exercise independent judgement on issues at all operational levels;
- that a majority of the directors shall be 'independent' (currently 80%);
- that the Chairperson must be an 'independent' director;
- that the roles of Chairman and Chief Executive Officer shall not be performed by the same person.

The current Board consists of 4 non-executive directors, and 1 executive director.

Each of the current directors has held office continuously since their date of appointment and these details are:

W.E.B. Ireland appointed 18 May, 2000

A. Basten appointed 27 June, 2002

A.J. Davidson appointed 14 March, 2000

H. Karelis appointed 18 May, 2000

L.M. McIntyre appointed 1 July, 2004

Ms Irene Lee, who resigned as a director on 1 July, 2004, had held office continuously since her appointment on 14 June, 2000.

A Due Diligence Committee, consisting of 1 independent director and 1 non-independent director was established to attend to the special needs of the Management Rights buy-back agreement, completed in April 2004.

In consideration of the company's limited size and the still early stage of its development, a Nominations Committee has not yet been established.

### **Promotion of Ethical and Responsible Decision-Making:**

The Board fosters a code of ethical behaviour requiring responsible personal conduct, well considered decision-making and committed performance of personal duties on the part of each director and company officer.

Other than in the case of dealing in the Company's securities, owing to the very subjective nature of the behavioural issues involved, the expected high standards of honest and ethical behaviour have not been set in the form of written requirements and guidelines.

The general rule is that any behaviour on the part of directors and officers which is likely to bring the Company into disrepute, is totally unacceptable.

The highly technical nature of the Company's life-sciences area of specialisation also means that from time to time, in order to gain the necessary level of understanding for responsible, well-informed decision making, the Board needs to receive skilled independent scientific advice. With the

approval of the Board and at the company's expense, a director also has the right to seek independent legal or professional advice concerning any aspect of the company's operations, if this is necessary for fulfilment of the director's duties and obligations as a director.

### Safeguarding Integrity in Financial Reporting:

The company has in place a structure to ensure the truthful and factual presentation of the company's operating results and financial position, and a process to monitor and ensure the independence and competence of the company's auditors.

Development and finalisation of the Company's accounts are under the scrutiny of the Audit Committee consisting of a non-executive director and the Company Secretary. The size of the committee is considered adequate for the needs of the company at this stage.

The members of the Audit Committee at the date of this report are non-Executive Director, Alastair Davidson, and Company Secretary, Robert Thomas. Both are qualified accountants and have considerable experience in the financial administration of public companies, and the preparation and presentation of Statutory Reports and Accounts in accordance with the prevailing legal requirements and accounting standards.

In addition to ensuring the continuing adequacy of internal controls, the Audit Committee reviews:

- \_ Half yearly and annual financial reports for submission to the Board
- \_ The effectiveness of the audit processes and communication with the external auditors on accounting and internal control issues.

Audit Committee Meetings Held During the Financial Period:

	<b>Meetings Held</b>	<b>Meetings Attended</b>
Alastair Davidson	2	2
Robert Thomas	2	2

### Making Timely and Balanced Disclosure:

In keeping with the principles of continuous disclosure, the Directors have taken measures to ensure timely, and meaningful disclosure of material information concerning the company, to shareholders and the general public.

Half-yearly reviews of the company's regulated investments are mailed to shareholders, and all reviews, announcements and reports are posted to the company's website (www.biotechcapital.com.au) immediately following their release to the Australian Stock Exchange.

The company also has a policy ensuring that all media comment is to be provided by the Chairman or the Managing Director only.

### Respecting the Rights of Shareholders:

The Company informs its shareholders through formal means, eg ASX releases and members' meetings, and informally through its website and in response to written and verbal communications. Any shareholder expressions of concern or opinion are referred to the Directors for their consideration and preparation of a reply.

All enquiries by shareholders, investment intermediaries and the general public are promptly and comprehensively responded to (by a Director or the Company Secretary) with due awareness of the need to restrict such information and explanation to material which has already been released publicly through the proper channels.

### Recognising and Managing Risk:

The multiple risks inherent in operating the company and managing its investments, are managed by a number of means designed to avoid or minimise any adverse material financial impact. These include:

- \_ reviews and reports to the Board by the Audit Committee on compliance with and continuing appropriateness of internal controls;
- \_ reviews by the Board of the scope, practical application and thoroughness of the system of internal control and the company's means of recognising and protecting itself against material risk;
- \_ reports from the company's insurance broker concerning the adequacy of insurance cover and occupational health and safety issues;
- \_ reports and recommendations received from the external auditor during the process of reviewing the accounts and internal controls.

Given that the company's business focus is upon providing patient equity capital to new Australian enterprises endeavouring to exploit commercial opportunities in the life-sciences field, the major financial risk is that the company's investment will be lost or will materially lose value. This could occur under a variety of circumstances including where the underlying enterprise later completely fails, or commercially suffers in a significant way, eg due to excessive marketing difficulties or delays, product failure, serious management or funding problems, etc.

The 'pioneering' nature of the investee enterprises also tends to increase the investment risk involved.

The Board endeavours to reduce investment risk by a number of means, including:

- \_ requiring all investments to be made in full compliance with the Pooled Development Funds Act 1992 and the general rationale of the PDF Program;
- \_ unless otherwise authorised by the directors in writing, requiring all investments to be made in accordance with the company's stated investment policy;
- \_ ensuring proper evaluation of new investment opportunities by means of a thorough due diligence assessment;
- \_ placing a limit on the maximum amount which can be invested in a single investee;
- \_ ensuring investees have taken proper steps to secure their intellectual property rights;
- \_ ensuring each investee has a proper business plan, financial budgets and has established clear, achievable, commercial goals;
- \_ diversifying investment over a number of different companies, each aiming at a different potential market area or niche;

– appointing a director to the board of an investee company when possible, to assist with its governance and development.

#### Encouraging Enhanced Performance:

With the approval of shareholders given on 8 April 2004, the company has appointed Titan Bioventures Pty Ltd ('Titan') to manage the company's investments. The company's Managing Director, Harry Karelis, is a director of and holds a financial interest in Titan.

The management terms provide for payment of an annual management fee of 2% to Titan, based on the value of the underlying portfolio.

In addition to the management fee, the agreement provides for payment of an incentive to Titan, equivalent to 10% of any gains realised on disposal of an investment, less any unrealised losses in the remaining portfolio.

Within this context and the other requirements of their corporate governance roles and responsibilities, the directors thus oversee the investment activity and performance of the investment manager. They also aim to ensure that Titan always diligently fulfils its management obligations and that it does so in full accordance with the aims and interests of the company, and in keeping with the company's stated investment policy.

Except for the Managing Director's indirect participation in the fees and incentives payable to Titan, as described above, the Board has not established formal procedures for reviewing the individual performance of the other directors and Company Secretary.

#### Remunerating Fairly and Responsibly:

The company has no employees, and fees for services provided by directors and the Company Secretary have been determined contractually, at arm's length.

With the exception of the Managing Director, Harry Karelis, who receives no fee in view of the payment of management fees to Titan Bioventures Management Pty Ltd, of which he is a director and in which he holds a financial interest, the directors are each paid a fee at a rate determined by the Board and which ensures that the aggregate sum of directors' fees are within the limitation imposed by the company's constitution.

Particulars concerning directors' remuneration are set out in the Directors' Report and in Note 14 of the Financial Report.

#### Recognising the Legitimate Interests of Stakeholders:

The Board recognises that the company has legal and other obligations to stakeholders who are not holders of the company's securities. These include clients, customers, creditors, and the community as a whole.

The company endeavours to conduct its operations in a manner which ensures compliance with the law, full and timely performance of contractual commitments, adherence to recognised codes of practice, maintenance of confidentiality and due fulfilment of other compliance needs and expectations.

The company is not subject to any significant environmental regulation in respect of its activities.

#### Statement of Financial Performance

For the year ended 30 June 2004

	Notes	2004 \$'000	2003 \$'000
<b>Revenue from ordinary activities</b>	<b>2</b>	957	1,039
Management fees	<b>16(e)</b>	(949)	(782)
Other expenses from ordinary activities		(655)	(261)
Repurchase of management rights		(607)	–
Unrealised loss on non-current investment		(3,399)	–
		(5,610)	(1,043)
<b>Loss from ordinary activities before related income tax benefit</b>		(4,653)	(4)
Income tax benefit relating to ordinary activities	<b>3</b>	662	1
<b>Loss from ordinary activities after related income tax benefit</b>		(3,991)	(3)
Net loss attributable to members of BioTech Capital Limited		(3,991)	(3)
Net increase in asset revaluation reserve	<b>10</b>	7,368	–
<b>Total revenues, expenses and valuation adjustments attributable to members of BioTech Capital Limited recognised directly in equity</b>		7,368	–
<b>Total changes in equity attributable to members of BioTech Capital Limited other than those resulting from transactions with owners as owners</b>		3,377	(3)
Basic earnings/(loss) per share		(4.37) cents	0.00 cents

*The above statement of financial performance should be read in conjunction with the accompanying notes*

## Statement of Financial Position

As at 30 June 2004

	Notes	2004 \$'000	2003 \$'000
<b>Current Assets</b>			
Cash assets	4,18	12,839	21,126
Receivables	5	217	69
Deferred tax assets		691	3
<b>Total Current Assets</b>		13,747	21,198
<b>Non-Current Assets</b>			
Investments	6	34,556	18,173
<b>Total Non-Current Assets</b>		34,556	18,173
<b>Total Assets</b>		48,303	39,371
<b>Current Liabilities</b>			
Payables	7	172	283
Current tax liabilities	3	–	2
<b>Total Current Liabilities</b>		172	285
<b>Non Current Liabilities</b>			
Deferred tax liabilities		1,334	8
<b>Total Non Current Liabilities</b>		1,334	8
<b>Total Liabilities</b>		1,506	293
<b>Net Assets</b>		46,797	39,078
<b>Equity</b>			
Contributed equity	8	43,332	38,990
Retained profits	9	(3,903)	88
Reserves	10	7,368	–
<b>Total Equity</b>	11	46,797	39,078

The above statement of financial position should be read in conjunction with the accompanying notes.

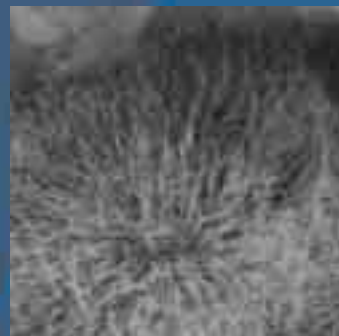
## Statement of Cash Flows

For the year ended 30 June 2004

	Notes	2004 \$'000	2003 \$'000
<b>Cash Flows from Operating Activities</b>			
Interest received		963	1,031
Other income received		2	–
Managers fees paid		(1,144)	(802)
Payments to suppliers		(571)	(216)
Income taxes paid		(158)	(72)
Repurchase of management rights		(607)	–
<b>Net cash (outflow) from operating activities</b>	12	(1,515)	(59)
<b>Cash Flows from Investing Activities</b>			
Payments for investments		(11,114)	(1,223)
<b>Net cash outflow from investing activities</b>		(11,114)	(1,223)
<b>Cash Flows from Financing Activities</b>			
Proceeds from Issue of Shares		7,531	–
Share Buy-Back payment		(3,189)	–
<b>Net cash inflow (outflow) from financing activities</b>		4,342	–
<b>Net decrease in Cash Held</b>		(8,287)	(1,282)
Cash at the beginning of the financial period		21,126	22,408
<b>Cash at the End of the Financial Year</b>	4	12,839	21,126

The above statement of cash flows should be read in conjunction with the accompanying notes.

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## Notes to the Financial Statements 30 June 2004

### Note 1 – Summary of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies are consistent with those of the previous year.

#### (a) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Being a Pooled Development Fund, the company is taxed at 15% on its regulated investment activities and 25% on other income.

#### (b) Acquisitions of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

#### (c) Revenue Recognition

Interest is brought to account on an accruals basis.

Dividend income is recognised in the statement of financial performance when receivable.

#### (d) Investments

The Portfolio of investments in unlisted securities forms one class of asset which is classified as non-current, reflecting the expected holding period. The investments are initially recorded at cost and the portfolio is carried at the lower of cost and recoverable amount.

The Portfolio of investments in listed securities forms another class of assets. These investments are also classified as non-current and have been valued on the basis of their 3 day average quoted mid-market price, or 3 day volume weighted average price, prior to the end of the reporting period. A discount of between 5% to 25% is then applied to reflect such issues as size of holding and liquidity. Any upward revision in carrying value is also adjusted to reflect a provision for taxation, calculated at the rate of 15% due to the company's Pooled Development Fund status.

Bank bills have been purchased in the market at a discount to face value. The bills are carried at an amount representing cost and a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest received.

**(e) Cash**

For purposes of the statement of cash flows, cash includes deposits at call and bank bills which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

**(f) Trade and other creditors**

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(g) Earnings per share****(i) Basic earnings per share**

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(h) Rounding of Amounts to Nearest Thousand Dollars**

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**(i) Adoption of Australian Equivalents to International Financial Reporting Standards**

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The company's directors, along with the Manager, are assessing the significance of these changes and are preparing for their implementation. The Board will oversee and manage the Company's transition to IFRS. To date the Board has analysed most of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. At this stage the Company has not been able to reliably quantify the impacts on the financial report, but will seek to keep stakeholders informed as to the impact of these new standards as they are finalised. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed to determine the most appropriate accounting policy for the company.

Major changes identified to date that will be required to the company's existing accounting policies include the following (references to new AASB standards below are to the Australian equivalents to IFRS issued in July 2004):

*Financial instruments*

Under the new AASB 132 *Financial Instruments: Disclosure and Presentation* the current classification of financial instruments issued by the company will not change.

Under the new AASB 139 *Financial Instruments: Recognition and Measurement* there may be major impacts as a result of:

- financial assets held by the company being subject to classification as either held for trading, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost. The most likely accounting change is that investments in equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the company's financial position and reported results.

**Note 2 – Revenue**

	Year ended 30 June 2004 \$'000	Year ended 30 June 2003 \$'000
Interest	955	1,039
Other	2	–
	957	1,039

**Note 3 – Income Tax**

The income tax benefit for the financial period differs from the amount calculated on the loss at a 25% rate. The differences are reconciled as follows:

	Year ended 30 June 2004 \$'000	Year ended 30 June 2003 \$'000
Loss from ordinary activities before income tax benefit	(4,653)	(3)
Income tax benefit calculated @ 25% rate (see note 1a)	1,163	1
Non-deductible costs relating to contract termination	(161)	–
Effect of lower tax on Investment Income	(340)	–
<b>Aggregate income tax benefit</b>	<b>662</b>	<b>1</b>
Aggregate income tax expense comprises:		
Current tax provision	–	(2)
Provision for deferred income tax	(26)	–
Deferred tax asset	688	3
	662	1

**Note 4 – Current Assets – Cash assets**

	30 June 2004 \$'000	30 June 2003 \$'000
Cash at bank and on hand	479	3,277
Bank bills	12,360	17,849
	12,839	21,126

**Note 5 – Receivables**

	30 June 2004 \$'000	30 June 2003 \$'000
Interest receivable	1	9
GST recoverable	154	27
Income Tax Recoverable	62	33
	217	69

**Note 6 – Investments**

	30 June 2004 \$'000	30 June 2003 \$'000
<b>Current Investments</b>	–	–
<b>Non Current Investments</b>		
Investment in listed companies – at market value		
Alchemia Limited (see note below)	1,880	2,000
Clinical Cell Culture Limited	12,371	–
Starpharma Holdings Limited	2,031	–
	16,282	2,000
Investment in Companies – at cost		
Proteome Systems Ltd	1,976	5,375
Pacific Knowledge Systems Pty Ltd	2,075	2,075
XRT Ltd	4,000	4,000
Xenome Ltd	3,500	3,500
Stem Cell Sciences Ltd	3,000	–
Continence Control Systems	2,000	–
Biocomm Services Pty Limited (see note below)	100	100
	16,651	15,050
Investments in Convertible Notes		
Pacific Knowledge Systems Pty Ltd	123	123
XRT Ltd	1,500	1,000
	1,623	1,123
<b>Total Non Current Investments</b>	<b>34,556</b>	<b>18,173</b>

Note: Alchemia Limited became listed during the year and was previously shown as an unlisted investment. The investment in Biocomm Services Pty Limited is initially \$100,000, with a commitment to invest a total of \$3 million.

**Summary of changes in non-current investments**

Opening	18,173	16,950
Acquisitions	11,114	1,223
Disposals	–	–
Revaluations	5,269	–
Closing	34,556	18,173

## Note 7 – Payables

	30 June 2004 \$'000	30 June 2003 \$'000
Managers fees payable	24	195
Director fees payable	68	–
Trade Creditors	58	38
Payable to Challenger Group Services Limited	–	50
Audit fees payable	22	–
	172	283

## Note 8 – Contributed Equity and Share Options

	2004 Shares	2004 \$'000	2003 Shares	2003 \$'000
<b>(a) Share Capital</b>				
Fully paid ordinary shares	89,354,905	43,332	80,030,100	38,990

**(b) Movements in ordinary share capital**

Date	Details	2004 No. of Shares	2004 Issue Price	2004 \$'000	2003 No. of Shares	2003 Issue Price	2003 \$'000
30/06/2003	Opening Equity	80,030,100		38,990	80,030,100		38,990
<i>Shares issued during the year:</i>							
30/09/2003	Exercise of options	15,269,805	0.50	7,635	–	–	–
30/09/2003	Transaction costs relating to share issues	–		(104)	–		–
		15,269,805		7,531	–		–
<i>Shares bought back during the year (see note below):</i>							
08/04/2004	Share Buy-Back/Cancellation	(5,945,000)		(3,189)	–		–
		(5,945,000)		(3,189)	–		–
30/06/2004	Closing Equity	89,354,905		43,332	80,030,100		38,990

Note: The share buy-back/cancellation involved some 6.24% of the then-issued shares and represented shares bought from Challenger Financial Services Group Ltd entities in connection with the investment management rights buy-back/termination.

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

**(d) Issued Options**

	2004 Options	2003 Options
Options exercisable at \$0.50 expiring 30/09/03 ("Sept '03 options")	–	41,300,000
Options exercisable at \$0.55 expiring 10/10/06 ("Oct '06 options")	44,677,419	–

**(e) Movements in options**

Date	Details	2004 No. of Options	2004 Exercise Price	2003 No. of Options	2003 Exercise Price
30/06/2003	Opening Issued Options	41,300,000	\$0.50	41,300,000	\$0.50
30/09/2003	Exercise of Sept '03 options	(15,269,805)	\$0.50	–	–
30/09/2003	Expiry of Sept '03 options	(26,030,195)	\$0.50	–	–
	Total Exercised and Expired	(41,300,000)	\$0.50	–	–
1/10/2003	Balance of Issued Options	–	–	–	–
10/10/2003	Issue of Oct '06 options	47,649,919	\$0.55	–	–
	Total Issued	47,649,919	\$0.55	–	–
8/04/2004	Buy-Back/Cancellation of Oct '06 options (see note)	(2,972,500)	\$0.55	–	–
	Total Bought/Cancelled	(2,972,500)	\$0.55	–	–
30/06/2004	Closing Issued Options	44,677,419	\$0.55	41,300,000	\$0.50

Note: The Oct '06 options buy-back/cancellation involved some 6.24% of the then-issued options and represented options bought from Challenger Financial Services Group Ltd entities in connection with the investment management rights buy-back/termination.

**(f) Options**

The 44,677,419 issued options entitle holders to convert the options into ordinary shares, by completion and lodgement of an Exercise Notice and payment of the exercise price of \$0.55 per unit. Each option is convertible into 1 share which will rank pari passu with all other ordinary shares. The options are exercisable (in parcels of not less than 100 options) at any month end up to 30 September, 2006, and then on their final expiry date of 10 October, 2006, unless otherwise determined by the Board in its absolute discretion.

**Note 9 – Retained Profits**

	30 June 2004 \$'000	30 June 2003 \$'000
Retained profits at the beginning of the financial year/period	88	91
Net Profit attributable to members of the parent entity	(3,991)	(3)
Retained profits/(losses) at the end of the financial year	(3,903)	88

**Note 10 – Reserves**

	30 June 2004 \$'000	30 June 2003 \$'000
Asset Revaluation Reserve (i)	7,368	–
	7,368	–

This reserve reflects the net gain, less 15% tax, arrived at after offsetting unrealised gains and unrealised losses on the company's regulated investments.

Unrealised gains and unrealised losses are arrived at by comparing the balance date value of each investment, as determined in accordance with the company's declared valuation policy, with the investment's cost price.

These calculations do not take into account incentive fees which might be payable to the Manager, or other persons, relating to gains realised on disposal of any investments.

The balance of this reserve does not represent funds available for distribution to shareholders in specie, because of the unrealised nature of the net gain involved.

**(i) Asset Revaluation Reserve Movements During the Year**

Opening Balance	–	–
Revaluation increment on investments	7,368	–
Closing Balance	7,368	–

**Note 11 – Equity**

	30 June 2004 \$'000	30 June 2003 \$'000
Total equity at the beginning of the financial year/period	39,078	39,081
Total changes in equity recognised in the statement of financial performance	3,377	(3)
Total movements in contributed equity	4,342	–
Total equity at the end of the financial year	46,797	39,078

**Note 12 – Reconciliation of Operating Profit after Income Tax to the Net Cash Flow from Operating Activities**

	30 June 2004 \$'000	30 June 2003 \$'000
Operating loss after income tax	(3,991)	(3)
<i>Non Cash MInvesting Activities</i>		
Unrealised Loss on Investment	3,399	–
<i>Changes in assets and liabilities:</i>		
(Increase) / Decrease in other debtors	(119)	(50)
(Increase) / Decrease in future income tax benefit	(688)	–
(Decrease) / Increase in provision for income tax payable	(31)	(37)
(Decrease) / Increase in deferred tax liabilities	25	(3)
(Decrease) / Increase in payables	(111)	34
Net cash flow from operating activities	(1,515)	(59)

**Note 13 – Events Occurring After Balance Date**

In August 2004, investee company Proteome Systems announced it had lodged a prospectus with the Australian Stock Exchange (ASX) for a fully underwritten \$20 million capital raising and would seek a listing on the ASX. The valuation of Proteome under this capital raising is at a discount to the value of the Proteome investment in the books of BioTech Capital Ltd and thus the investment value has been reduced by approximately \$3.4 million in these accounts.

In August 2004, investee company Clinical Cell Culture ("C3") announced it had successfully completed an institutional placement to raise approximately \$9.8 million. This was closely followed by the issue of a further \$4 million shares under C3's Share Purchase Plan.

## Notes to the Financial Statements 30 June 2004 continued

BioTech Capital did not acquire additional shares through either of the new capital raisings. However, the \$0.42 share price of these new issues compares favourably with the effective net price of \$0.407 per share at which the Company has valued its C3 investment at balance date.

### Note 14 – Remuneration of Directors

	30 June 2004 \$'000	30 June 2003 \$'000
Directors' Remuneration		
Income paid or payable, or otherwise made available, in respect of the financial year, to all Directors of the company, directly or indirectly, by the company or any related party:	80,000	47,500
The number of directors of the company whose income (including superannuation contributions) falls within the following bands is:	No. of Directors	No. of Directors
\$0 – \$10,000	1	3
\$10,001 – \$20,000	4	2

Remuneration of each Director during the year (see also notes below)

	Salary & Fees	Super annuation	Retirement Benefits	Equity Options	Other Benefits	Total \$'000
W.E.B.Ireland Chairman (non- executive)	20	–	–	–	–	20
A.Basten (non-executive)	18	2	–	–	–	20
A.J.Davidson (non-executive)	18	2	–	–	–	20
H.Karelis Managing Director (see note below)	–	–	–	–	–	–
I.Y.L.Lee	18	2	–	–	–	20
<b>Total Remuneration</b>	<b>74</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>80</b>

Notes: With the exception of the Managing Director, Mr Karelis, the remuneration of each director has been established on the basis of a flat fee, inclusive of any superannuation benefit. Thus there is no direct link, as such, between performance and the level of remuneration.

Mr Karelis is a major shareholder and managing director of Titan Bioventures Management Pty Ltd, the company's new investment manager. Prior to this he was an executive of the Challenger Financial Services Group ('CFG') and specialised in managing the investment management services then being provided to BioTech Capital Limited by CFG's subsidiary, Challenger Biotech Management Limited ('CBML'). Mr Karelis has not been and is not being

remunerated by the company, however during the year he received remuneration for his services to CFG and has received and will receive benefits from his equity interest in and services provided to Titan Bioventures Management Pty Ltd ('Titan').

Details of management fees paid and payable during the year to CBML and Titan are shown in Note 16.

### Note 15 – Remuneration of Auditors

	30 June 2004 \$'000	30 June 2003 \$'000
PwC – Australian Firm		
Remuneration for audit or review of the financial statements	31,350	14,600
Remuneration for taxation services	–	–

### Note 16 – Related Party Disclosures

(a) The Directors of Biotech Capital Limited during the whole of the period were:

W E B Ireland  
A J Davidson  
H Karelis  
I Y L Lee  
A Basten

(b) Remuneration Benefits

Information on remuneration benefits of directors is disclosed in note 14.

(c) Transactions of directors and director related entities concerning shares or share options.

Aggregate number of shares and share options of Biotech Capital Limited acquired or disposed of by directors of the company or their director related entities.

	2004 Number	2003 Number
Ordinary shares acquired/(disposed of)	730,000	120,000
Options over ordinary shares acquired/(disposed of)	(296,000)	–

Aggregate number of shares and share options of Biotech Capital Limited held directly, indirectly or beneficially by directors of the company or their director related entities at balance date.

	2004 Number	2003 Number
Ordinary shares	1,120,000	4,390,000
Options over ordinary shares	560,000	2,801,500

**(d) Equity instrument disclosures relating to directors***Option holdings*

The numbers of options over ordinary shares in the company held during the financial year by each director of BioTech Capital Limited, including their personally-related entities, are set out below.

Name of director	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other net changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
W.E.B.Ireland	50,000	–	(50,000)	25,000	25,000	25,000
A.Basten	–	–	–	5,000	5,000	5,000
A.J.Davidson	60,000	–	(60,000)	50,000	50,000	50,000
H. Karelis	526,000	–	(500,000)	374,000	400,000	400,000
I.Y.L.Lee	220,000	–	(120,000)	(20,000)	80,000	80,000
L.M.McIntyre	–	–	–	–	–	–

No options are vested and unexercisable at the end of the year.

*Share holdings*

The numbers of shares in the company held during the financial year by each director of BioTech Capital Limited, including their personally-related entities, are set out below.

Name of director	Balance at the start of the year	Received during the year on the exercise of	Other net changes during the year	Balance at the end of the year
<b>Ordinary shares</b>				
W.E.B.Ireland	–	50,000	–	50,000
A.Basten	10,000	–	–	10,000
A.J.Davidson	40,000	60,000	–	100,000
H.Karelis	300,000	500,000	–	800,000
I.Y.L.Lee	40,000	120,000	–	160,000
L.M.McIntyre	–	–	–	–

**(e) Other transactions with directors and director related entities:**

There were no director appointments or resignations during the financial year.

Titan Bioventures Management Pty Ltd ('Titan'), a company in which Harry Karelis is a director and holds a financial interest, is the Manager of Biotech Capital Limited and commenced this role on 9 April 2004. Mr Karelis was also an executive of the previous Manager, Challenger Biotech Management Limited ('CBML').

Further details of the basis upon which the company terminated the management agreement with CBML and entered into a new management agreement with Titan, are shown below and in Note 8.

The Manager is entitled to be paid an annual management fee equal to 2.0% of the net value of the assets calculated on a quarterly basis. During the period to 30 June 2004 the management fees payable were \$948,799 (2003:\$782,056). These fees were payable as follows:

	2004	2003
Challenger Biotech Management Limited	\$702,984	\$782,056
Titan Bioventures Management Pty Ltd	\$245,815	–

*Performance Fee:*

The Manager is also entitled to receive a performance fee of 10% of the difference between the realised value of an investment and the cost of the investment. This performance fee is to be reduced by any unrealised losses that may exist in the balance of the investment portfolio, and the Company is also entitled to a rebate of 30% on any performance fee payable. No performance fee was payable during the period. The balance date contingent liability relating to the performance fee is shown in Note 20.

*Buy-back of Management Rights, Shares and Options from Challenger:*

During the year, at an extraordinary general meeting held on 8 April 2004, shareholders voted on several resolutions that culminated in the selective buy back of shares and options held by Challenger Financial Services Group Limited, for a total consideration of \$3,180,575. As a related issue, the investment management agreement with Challenger Biotech Management Limited was terminated at a cost of \$606,800 (net of GST) to BioTech Capital.

**Note 17 – Segment Information**

The company operates in one business segment where it invests in entities operating in the life-science/biotechnology sectors.

The company operates in one geographical segment being Australia.

**Note 18 – Financial Instruments**

(i) On balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the company approximates their carrying amounts shown below.

The company's policy relating to the valuation of investments traded on organised markets, and unlisted investments has been described in Note 1(d).

(ii) At year-end the balances of and effective interest rates earned on financial assets were as follows:

<b>30 June 2004</b>			
<b>Financial Assets</b>	<b>Balance \$'000</b>	<b>Interest Rate</b>	<b>Weighted Average Effective Interest Rate</b>
Cash	479	Floating	5.41%
Bank bills	12,360	Floating	5.42%
Receivables	217	N/A	–
Investments	34,556		
<b>Total financial assets</b>	<b>47,612</b>		
<b>Total financial liabilities</b>			<b>–</b>
Payables	172	N/A	–
Provisions	–	N/A	–
<b>Net financial assets</b>	<b>47,440</b>		

<b>30 June 2003</b>			
<b>Financial Assets</b>	<b>Balance \$'000</b>	<b>Interest Rate</b>	<b>Weighted Average Effective Interest Rate</b>
<b>Effective Interest Rate</b>			
Cash	3,277	Floating	3.5%
Bank bills	17,849	Floating	4.75%
Receivables	69	N/A	–
Investments	18,173		
<b>Total financial assets</b>	<b>39,368</b>		
<b>Total financial liabilities – Payables</b>	<b>285</b>	<b>N/A</b>	<b>–</b>
<b>Net financial assets</b>	<b>39,083</b>		

The company has no unrecognised financial instruments at balance date.

The company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of these assets.

**Note 19 – Earnings/(Loss) Per Share**

	<b>30 June 2004</b>	<b>30 June 2003</b>
Basic earnings/(loss) per share, based on the after tax benefit loss of \$3,990,868	(4.37) cents per share	0.00 cents per share
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	91,268,688 shares	80,030,100 shares

For the purposes of Diluted EPS there have been no diluting potential ordinary shares outstanding during the year.

**Note 20 – Contingent liability****Performance Fee**

It has been assessed that if all investments were realised at their balance date book values, and after taking into account the company's rebate entitlement, the performance fee payable to the Manager would be approximately \$369,000.

The basis of the performance fee calculation has been described in Note 16.

## Directors' Declaration


The directors declare that the financial statements and notes set out on pages 31 to 49

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's financial position as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



**A J Davidson**  
Director

Sydney, 31 August 2004

## Independent audit report to the members of Biotech Capital Limited

### Audit opinion

In our opinion, the financial report of Biotech Capital Limited:

- \_ gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Biotech Capital Limited as at 30 June 2004, and of its performance for the year ended on that date, and
- \_ is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

### Scope

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Biotech Capital Limited (the company), for the year ended 30 June 2004.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- \_ examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- \_ assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

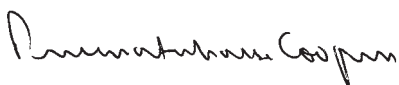
When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



PricewaterhouseCoopers



**M Haberlin**  
Partner

Sydney, 30 September 2004

**Shareholder Information**

**A. Spread of equity security holdings (as at 30 June 2004)**

	Ordinary shares	
	Shares	Options
1 – 1,000	71	328
1,001 – 5,000	2,061	3,747
5,001 – 10,000	1,897	914
10,001 – 100,000	1,493	639
100,000 and over	52	33
	5,574	5,661

**B. Equity security holders**

Notices under Section 671B of the Corporations Act, disclosing a relevant interest in the company's shares, have been received from the following substantial holders as at the date of this report:

	Number of shares/votes	Voting Power
Select Asset Management Limited	9,946,430	11.13%
Dominic Paul McCormick	10,165,430	11.38%

Mr McCormick has declared that he is a director of Select Asset Management Limited and therefore has a relevant interest in the shares held by that company.

### C. Equity security holders

#### Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities at 30 June 2004 are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Permanent Trustee Aust Ltd (Syd)	9,319,530	10.43
J P Morgan Nomines Australia Limited	1,500,000	1.68
Tom Hadley Enterprises Pty Ltd	1,500,000	1.68
National Nominees Limited	1,400,000	1.57
BMG Finance Pty Ltd	1,211,193	1.36
Bond Street Custodians Limited	1,095,395	1.23
Fortis Clearing Nominees Pty Ltd	1,045,000	1.17
TDH Investments Pty Ltd (No. 3 A/C)	1,000,000	1.12
Mr Harry Karelis	800,000	0.90
Alimoc Pty Ltd	765,000	0.86
Mrs Thelma Joan Martin-Weber	600,000	0.67
Dr Lester Craig Cowell	504,000	0.56
Colvic Pty Limited	460,000	0.51
Tonita Pty Limited	450,000	0.50
Permanent Trustee Australia Limited	404,000	0.45
Mr Michael Alexander Baldry	320,000	0.36
Webfire Pty Ltd	302,172	0.34
Redbell Nominees Pty Ltd	300,000	0.34
T D H Investments Pty Ltd	300,000	0.34
Mr Nicholas Kemsley Gunner	250,000	0.28
	23,526,290	26.35

### D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

### Corporate Directory

#### Registered Office

BioTech Capital Limited  
Level 40, Chifley Tower  
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Sydney NSW 2000  
T 02 9238 0750  
F 02 9238 0790

#### Principal contact

Harry Karelis  
Managing Director  
Titan BioVentures  
T 08 9224 6816  
hkarelis@titanbioventures.com

#### Advanced Share Registry Services

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