

AUSTRALIAN

RESEARCH



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Biotech Capital Limited (BTC)

LMI Type	Investment Assets	Investment Area	Investment Sectors
Pooled Development Fund	Listed and Unlisted Companies	Australia	Diversified Biotechnology

Company Details

Biotech Capital Limited (*BTC*) is a pooled development fund (*PDF*) that invests in listed and unlisted biotechnology companies. Titan BioVentures Management Limited (*Titan*) has been appointed BTC's investment manager. Titan is one of Australia's leading life science investments groups and a dedicated provider of private equity to the biotechnology sector. BTC currently has investments in ten companies, creating a portfolio diversified across a number of biotechnology sectors and different stages of company development.

Board

B Ireland (Chairman), H Karelis, A Davidson, L McIntyre and T Basten.

Investment Philosophy

The manager's investment philosophy is to provide investors with a superior rate of return over the medium to long term. This is done through gaining exposure to a portfolio of companies across a number of different sectors. To achieve this objective, the company seeks to negotiate favourable investment terms, which include Board seats.

Style and Process

BTC uses Titan's resources for the investment process, including the selection, ongoing monitoring and disposal of listed and unlisted companies. There is significant due diligence across the entire process and the company only ever invests into a small number of reviewed companies. The three main criteria Titan looks for in biotechnology are: intellectual property (*IP*); people; and the necessity for the IP in the market. As part of the due diligence process, Titan will also consider syndications — an arrangement where two or more firms invest alongside each other in the same company. As the due diligence process is extensive, Titan outsources all non-core activities, including legal and accounting.

Investment Team

Harry Karelis, Managing Director;
Justin Hondris, Partner (United Kingdom);
Andrew Blackmore, Investment Manager; and
Geoff Pocock, Investment Manager.

Aegis Comments

Aegis believes BTC represents a solid investment for people seeking exposure to the biotechnology sector. By investing in BTC, the risk of one-off events is reduced as the fund is diversified across ten companies, each at different stages of development and in different fields of study. Titan utilises its industry contacts, both domestically and globally, to great effect, enlisting the help of internationally renowned scientists throughout the due diligence process. We acknowledge biotechnology has been *out of favour* recently, however, an investment in this area should be considered long term (more than five years).

Key Investment Information

RATING	Recommended
Price (A\$)	0.40
As at 31 August 2005	
Market Cap (A\$M)	38.1
Fully Diluted Shares (M)	89.3
Turnover (A\$M p.a.)	7.5
12 month L/H (A\$)	0.31 - 0.47
Listing Date	2000

Fees

Management Fees (% p.a.)	2.0
Performance Incentives (% p.a.) *	10.0

* Payable when realised gains offset unrealised and realised losses.

Performance Analytics

	ASX Healthcare Index		All Ords Acc	
	1 Yr	3 Yr (p.a.)	1 Yr	3 Yr (p.a.)
Excess Per. (%)	(55.61)	7.21	(39.86)	(15.08)
Beta	2.01	1.27	2.11	1.75
TE (%)	23.12	28.20	23.30	29.98
IR	(2.40)	0.26	(1.71)	(0.50)

Dividend Yield (%)

FY02	FY03	FY04
2.39ff	0.00ff	0.00ff

Substantial Shareholders (%)

Select Asset Management	18.90
As at 31 August 2005	

Company Contact



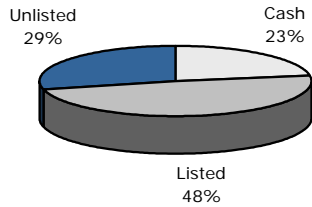
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61 8 9267 4788

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Sector	Industry Group	Industry	Sub Industry
Health Care	Pharma & Biotech	Pharma & Biotech	Pharma & Biotech

Asset Weighting



Other Data

Options: Options exercisable at A\$0.55 each, on or before 10 October 2006.

Dividend policy: To pay dividends from realised gains.

Capital management policy: Yes.

DRP available: Yes, at Directors' discretion.

BTC's Portfolio

Asset Class	Company	Business	Portfolio (%)
Listed	Alchemia	Drug Discovery	4.07
Listed	Clinical Cell Culture	Skin Replacement	20.79
Listed	Phylogica	Drug Discovery	8.88
Listed	Prima Biomed	Inflammation and Anti-cancer	1.43
Listed	Prima options	Inflammation and Anti-cancer	0.14
Listed	StarPharma	Nanomedicine	3.20
Listed	Stem Cell Sciences	Regenerative Medicine	10.10
Unlisted	Biocomm	Technology Transfer	6.68
Unlisted	Continence Control Systems	Medical Device	4.45
Unlisted	Pacific Knowledge Systems	Bioinformatics	5.16
Unlisted	XRT	Imaging	12.52
Cash			22.59
			100.00

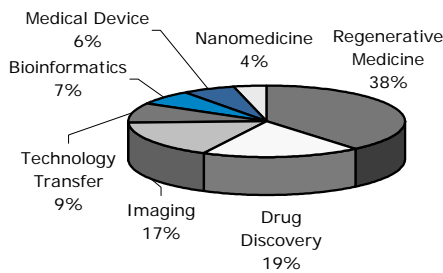
Portfolio as at 31 July 2005.

Tax Based Returns

	BTC	
	1 Year Return (%)	3 Year Annualised (%)
No Tax (0%)	(26.1)	(0.6)
Super Fund (15%)	(26.1)	(0.6)
AWOTE* (30%)	(26.1)	(0.6)
Maximum Tax Rate (48.5%)	(26.1)	(0.6)

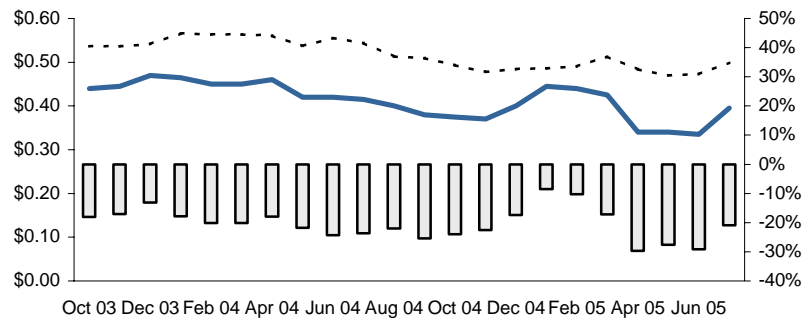
* Marginal tax rate for workers on the average wage. OTE rate + Annualised.

Fields of Study



Sources: BTC, Aegis Equities Research, IRESS.

Current Value NTA Performance



Legend: Prem/(Disc) to NTA (current) - RHS, Share Price - LHS, Current Value NAV - LHS

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2. Executive Summary

- BTC offers investors an opportunity to invest in the biotechnology sector, via a portfolio of both listed and unlisted biotechnology companies.
- BTC has been listed on the Australian Stock Exchange (ASX) since 29 August 2000, and theoretically, has an infinite investment life. Investors should note it is able to sell its shares on the ASX. There is no guarantee as to how frequently BTC will be traded.
- BTC was formerly managed by the Challenger Biotechnology Investment Team (*Challenger*), but due to a management buyout, the former members of the Challenger Biotechnology Investment Team (now known as Titan) gained control of the fund.
- Titan has been BTC's investment manager since the management buyout from Challenger in April 2004. The members of the Titan investment team are the former members of the Challenger Biotechnology team, meaning there has been consistency within the investment team for quite some time.
- The Titan investment team is located globally (with offices in Perth, Sydney and London). Titan believes this allows it to gather biotechnology investments and intelligence across borders.
- BTC is a PDF and offers investors tax concessions granted by the Australian Tax Office. Details of the tax concessions are provided in Section 4 — *Company Overview*.
- Titan uses a multi-staged investment process utilising private equity investment techniques. At each stage of its due diligence on a particular company, Titan is able to withdraw from the process.
- Titan is seeking companies with the following criteria: IP; the right people to lead the company; IP that will differentiate them in the marketplace; and a realistic business and funding plan.
- Investing into the biotechnology sector presents many risks to investors. The risks applicable to investors are very similar to those experienced in a private equity investment. Investors should be mindful of these risks before investing into BTC and note that BTC should only make up a small part of a well-diversified portfolio.
- There is a risk BTC will not locate suitable investment opportunities. As a result an investor would spend a significant period in a predominantly cash investment. As such, returns may be arbitrary for extended periods.
- Aegis is confident Titan has sufficient experience and skills to minimise the risk to investors. The recent listing of three of companies within the BTC portfolio is an example of the Titan investment team's skill.
- Aegis has reviewed this product and has issued a **RECOMMENDED** rating for investors who want exposure to the biotechnology sector.

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3. Aegis Overview

In Aegis' opinion, BTC (with the investment manager, Titan) represents one of the better investment alternatives available within the biotechnology sector. Aegis believes investing directly into the biotechnology sector is quite risky and, thus, diversification is required to mitigate one-off events. BTC, with its diversified portfolio of listed and unlisted biotechnology investments, seeks to provide this diversification.

Titan has a well-experienced team, who are highly regarded within the biotechnology sector. Titan, in combination with the support of the well-credentialed BTC Board and the scientific advisory Board (SAB), Foursight Associates (*Foursight*), is as good as any *private-equity*-like investment team we have seen.

As BTC is a PDF, investors can avail themselves of specific tax benefits within this investment. However, investors should view BTC as a long-term investment (more than five years) as the share price returns are likely to be quite volatile over the short term.

Throughout our review of BTC, Aegis has not taken a macro-view of the biotechnology sector. The purpose of our report has been to review BTC for investors looking to have biotechnology exposure within their portfolio and to advise if this would be a suitable investment for this purpose. Aegis believes that for investors looking for such exposure, BTC represents a well-diversified investment.

As with all biotechnology investments, there is the risk of capital loss. Companies within this sector are typically high-risk investments focusing on one particular field. Similar to investing in private equity, investors should expect a few underlying investments to lose a large proportion of the invested capital. The skill of the manager, in this case, Titan, to source high quality investments should assist in minimising the likelihood of these events occurring frequently. Titan (and when the team was a part of Challenger) has a proven record in biotechnology investing. Aegis is confident Titan will perform the due diligence process.

Investors should only invest in BTC once they are comfortable with the risk typically associated with biotechnology investments. Regardless of past performance, there will always be a risk of capital loss.

Recommendation

Aegis has developed a framework for rating investment product offerings in Australia. Our review process considers a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management; team stability, experience and performance; fees; risks; and likely outcomes.

Our rating is based on the following scale:

80 – 100 Recommended

60 – 79 Approved

0 – 59 Not Recommended

We have reviewed the product and have issued a **RECOMMENDED** rating.

A 'Recommended' rating indicates Aegis believes this is a superior grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters.

An 'Approved' rating indicates Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities but may not stand apart from its peers.

A 'Not Recommended' rating indicates Aegis believes that, despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

This report has been commissioned and as such, Aegis has received a fee for its publication. However, under no circumstances has Aegis been influenced, either directly or indirectly, in making statements and/or recommendations contained in this report.

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4. Company Overview

The Offer

BTC offers investors an opportunity to invest in the biotechnology sector via a portfolio of both listed and unlisted biotechnology companies. BTC listed on the ASX on 29 August 2000. Investors are able to liquidate their investment at any point.

BTC aims to provide investors an investment vehicle that uses private equity investment techniques and provides access to a diversified portfolio of Australia's leading life science companies. Currently, the portfolio consists of ten different companies, providing diversification across sectors and stages of development.

Titan is BTC's appointed investment manager. Titan is one of Australia's leading life science investment groups and is a dedicated provider of private equity to the biotechnology sector.

Titan has a well-established investment process that seeks to utilise its contacts in the biotechnology industry. The members of the consultative Scientific Board are internationally regarded in their respective fields. Further details on the investment process are provided in Section 5 — *Investment Process*.

BTC is a PDF that can offer investors many tax concessions. These are explained below.

Investment Objective

BTC gives investors access to a diversified portfolio of leading Australian life sciences companies, with the aim of providing tax-free returns in excess of 15% per annum.

BTC aims to achieve this objective by adopting a number of private equity investment techniques, including gaining access to seats on Boards and negotiating other favourable investment terms.

Background of Biotech Capital Limited

BTC was initially founded as the biotechnology arm of Challenger International Ltd (now known as Challenger Financial Services Group Ltd).

In April 2004, BTC proposed a share buy-back of Challenger shares (which included both the Challenger Group Ltd and Challenger Life Ltd) and to enter a new management agreement with Titan. The approval of the proposal meant Challenger relinquished its share holdings in BTC and a new management agreement with Titan (the former members of the Challenger Biotechnology investment team) was established. This process ensured the management of the portfolio remained consistent both before and after the management change.

Since April 2004 (when this structure was put in place), Titan has been mandated to manage additional biotechnology investments. In that time, only one person has left the Titan team. (This was Dr Julia Hill, who had been on a short-term contract, carried over from Challenger.) Details of the investment team are provided in Section 10 — *Entities Involved*.

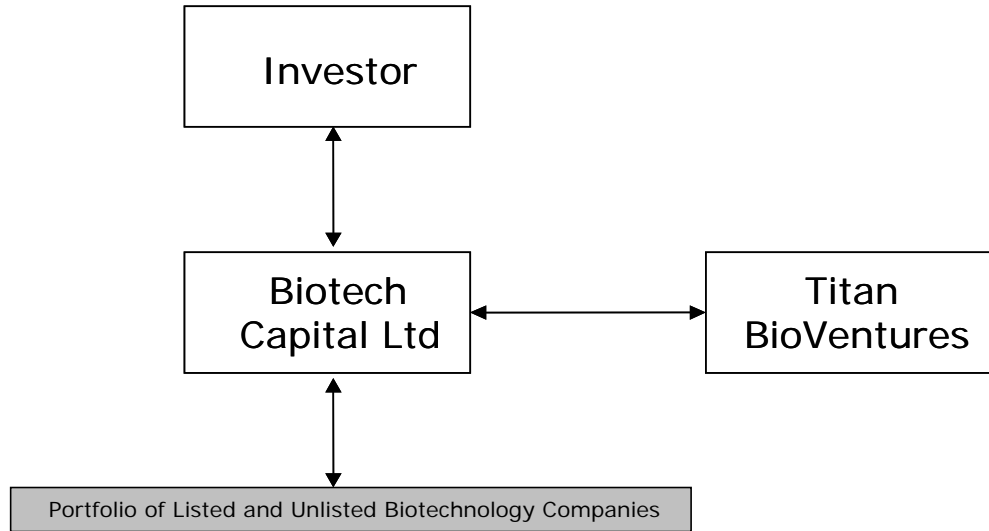
The Structure

BTC is a PDF that uses Titan's resources for the investment process, including the selection, ongoing monitoring and disposal of listed and unlisted companies. This relationship is in place (via an external management agreement) for a period of ten years. Under the agreement, Titan will make BTC's investment decisions. BTC will directly hold the portfolio.

The BTC structure is outlined in Figure 1.

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Figure 1. Structure of BTC



Source: Aegis Equities Research.

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Taxation

BTC is a PDF. The concept of the PDF was established in the early 1990s as a method of encouraging investments in certain kinds of enterprises by offering a number of tax concessions to investors. PDF dividends are exempt from income tax and dividend withholding tax. Capital gains made by investors who sell their shares in a PDF are also exempt from capital gains tax.

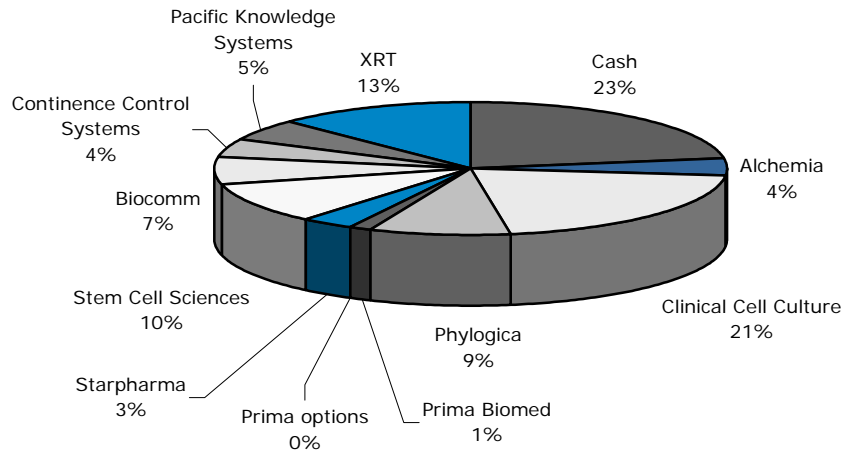
A PDF derives franking credits when it pays income tax, then distributes dividends to investors. As with ordinary companies, PDFs may declare and distribute franked dividends. Shareholders in PDFs receive concessional tax treatment in respect of dividend income received from the PDF and gains on the disposal of shares held in the PDF. Unfranked dividends received from a PDF are exempt from tax. Franked dividends are also exempt from tax, unless the shareholder elects to utilise the imputation credits attached to the franked dividends. In this case, the shareholder must include the franked dividends in assessable income calculations. Gains on the disposal of shares in a PDF are exempt from income tax and capital gains tax.

Diversification

The diversification within BTC is similar to the diversification that may be experienced within a private equity fund. When compared to a traditional equity portfolio, the BTC portfolio is quite concentrated with holdings across ten companies.

An overview of each of the underlying companies is provided in Appendix 1.

Figure 2. BTC Portfolio Holdings as at 31 July 2005

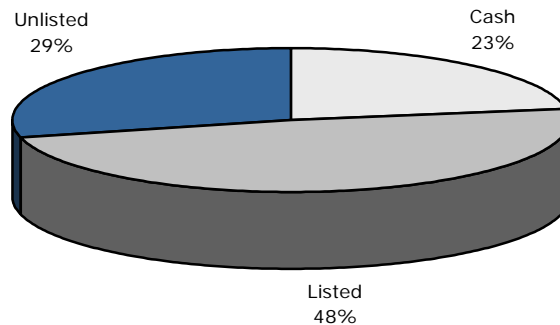


Source: Biotech Capital Limited.

BTC are currently maintaining a high cash allocation, as the downturn in the biotechnology sector cycle means BTC will be in a better position to negotiate new deals with a higher allocation to cash. When the cycle turns around, investors can expect BTC to sell some current positions in order to realise gains. The ease at which this can be done will depend on whether the investment is listed or unlisted.

The diagram below shows the current allocation of the portfolio between the listed and unlisted companies within the portfolio, as at 31 July 2005.

Figure 3. BTC – Diversification of Listed versus Unlisted Holdings

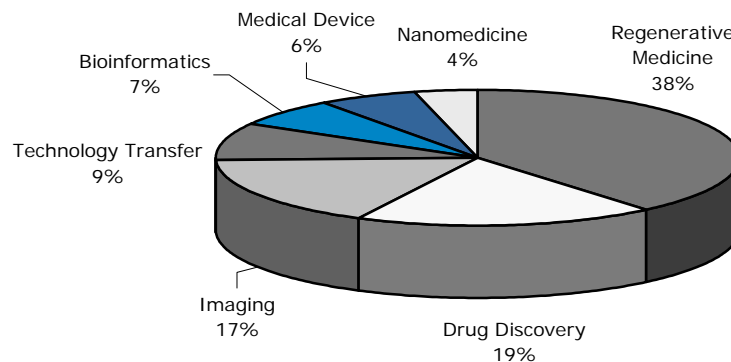


Source: Biotech Capital Limited.

Like private equity investments, the level of risk for each biotechnology company is also determined by the area of interest (*field of study*) in which research is undertaken. Below is a diagram showing the percentage invested in each field of study. (Please note the allocation to cash is not included in the diagram.)

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Figure 4. BTC – Field of Study



Source: Biotech Capital Limited.

Figure 4 shows there are large allocations to Regenerative Medicine (38%), Drug Discovery (19%) and Imaging (17%) within the portfolio. Together, these three fields of study account for 74% of the portfolio. Descriptions of the fields of interest for biotechnology investing are detailed in Section 5 — *The Investment Process*.

Trading History

Returns

BTC is a private equity fund that listed on the ASX on 29 August 2000. The nature of a private equity investment is such that it may take up to ten years until a private equity portfolio truly produces a return indicative of the manager's ability. Therefore, investors into the private equity sector must be prepared for low returns or losses in the short term.

Due to the potential length of time taken for a private equity cycle, BTC may not have completed a full portfolio cycle. Therefore, BTC's trading history may not be a true indication of the management's ability to achieve above average long-term returns.

Figure 5. BTC Share Price Returns to 31 July 2005

	1 Year	3 Years	Since Inception
Total Return (%)	(4.82)	43.58	39.08
Annualised Return (%)	n/a	12.82	6.94

Source: IRESS, Aegis Equities Research.

From Figure 5, it can be seen BTC has achieved an annualised return of 3.48% per annum since listing on the ASX in August 2000. This positive return comes despite significant share price declines over the last 12 months.

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Performance versus Benchmarks

BTC has underperformed the two benchmarks Aegis uses to make return comparisons over both one and three years. The ASX Healthcare Index (*ASX Healthcare Index*) has performed very strongly over these periods. The NASDAQ Biotechnology Index (*NASDAQ Biotech Index*) has performed very strongly over three years, but only slightly outperformed BTC over one year.

Since inception, BTC has outperformed the NASDAQ Biotech Index by 80.31% and it has outperformed the ASX Healthcare Index by 12.96%.

It should be noted that while the stocks in the ASX Healthcare Index are more similar in nature to BTC investments than the average industrial stock, it is highly unlikely BTC would invest in stocks in this index.

Figure 6. BTC Share Price Performance versus Benchmark to 31 July 2005

	1 Year	3 Years	Since Inception
Biotech Capital	(4.82)	43.58	39.08
ASX Healthcare Index	34.85	46.46	26.12
NASDAQ Biotech Index	1.80	50.57	(41.23)

Source: IRESS, Aegis Equities Research.

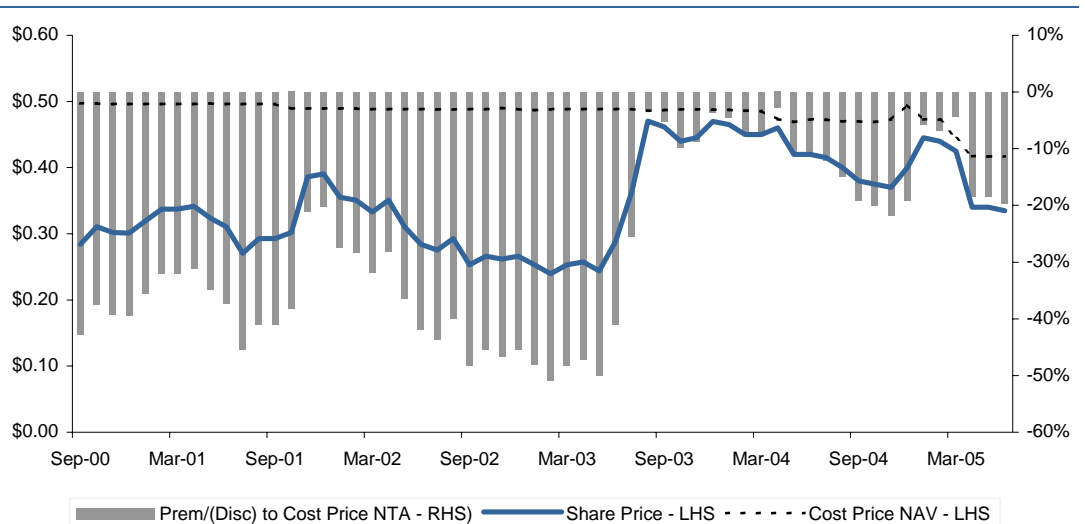
Performance versus Net Tangible Assets

The performance of a BTC investment can be measured by both the share price and the underlying net tangible asset (*NTA*) of the portfolio.

NTA is the value of the underlying investment portfolio and can be measured at historic costs or at current market value. A *premium share price to NTA* refers to a situation where the share price is trading above the NTA. Therefore, it is indicative of market sentiment and suggests the company will increase in value over the coming periods.

A *discount* is when the share price is below the NTA and the market has a negative view on the company. However, discounts can provide buying opportunities (the share price may be undervalued).

Figure 7. BTC NTA Current Valuation versus Share Price



Source: ASX, Aegis Equities Research.

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Currently, the BTC share price is trading at a significant discount to the current NTA valuation. As at 31 July 2005 this discount was 20.86%. From BTC's performance expectations, it would appear the share price is undervalued. It is likely the discount will decrease once the portfolio begins to mature and market sentiment in the biotechnology market improves.

However, Aegis does not see market sentiment improving in the short term. Investors should be prepared for the share price to trade at a discount to current value NTA for some time yet.

Risk

Biotechnology investment involves a significant degree of risk. As can be seen from BTC's returns (a negative 4.82%, 12-month return, and a positive 39.08% per annum return, or 6.94% annualised since inception), share prices in the biotechnology sector can be significantly volatile in comparison to the general equity market.

Figure 8. Standard Deviations to 31 July 2005

	1 Year	3 Years	Since 30/09/00
BTC	31.16%	33.23%	32.11%
ASX Healthcare Index	10.89%	14.40%	17.09%
NASDAQ Biotech Index	20.66%	21.95%	29.84%
S&P/ASX All Ords Index	7.55%	9.32%	10.47%

Source: IRESS, Aegis Equities Research.

BTC has a high degree of volatility within the portfolio that is beyond that of the indices - in particular the S&P/ASX All Ords. From a quantitative model developed by Aegis to examine the degree of downside risk of a listed investment, Aegis estimates that for every 12 months of investment, investors should expect, on average, negative returns 40% of the time (that is, for approximately five out of the twelve months), with a maximum loss of 1.14% in each of these months.

Over a complete private equity cycle (which can be up to ten years), Aegis would expect the monthly probability of a negative return to decrease, as the private equity portfolio becomes more established.

Correlation

One of the key features of an investment into a private equity firm, and in particular one that invests into biotechnology, is the low correlation with the rest of the equity market. For BTC, it is also apparent the performance of the shares also has a very low correlation with the ASX Healthcare and NASDAQ Biotech Index indices.

Figure 9. Correlation of BTC Share Price with Market as at 31 July 2005

	BTC (share)	ASX Healthcare Index	NASDAQ Biotech Index	S&P/ASX All Ords
BTC (share)	1.00	0.02	0.14	0.51
ASX Healthcare Index		1.00	0.52	0.42
NASDAQ Biotech Index			1.00	0.11
S&P/ASX All Ords Index				1.00

Source: IRESS, Aegis Equities Research.

However, share prices may not always reflect the performance of the underlying portfolio. Therefore, Aegis conducted a BTC versus market indices assessment on the correlation of both the current and cost based NTA.

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Figure 10. Correlation of BTC NTAs with Market as at 31 July 2005

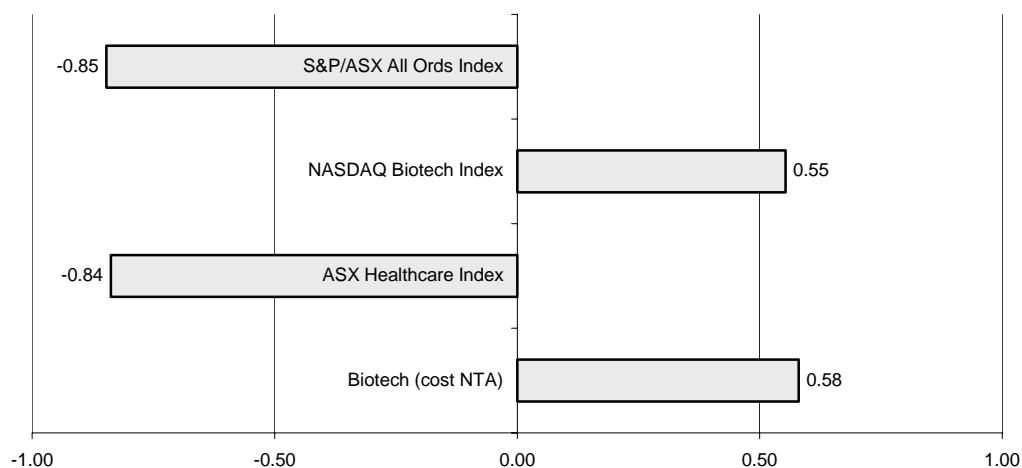
	BTC (current NTA)	BTC (cost NTA)	ASX Healthcare Index	NASDAQ Biotech Index	S&P/ASX All Ords
BTC (current NTA)	1.00	0.58	(0.84)	0.55	(0.85)
BTC (cost NTA)		1.00	(0.14)	0.24	(0.74)
ASX Healthcare Index			1.00	0.52	0.42
NASDAQ Biotech Index				1.00	0.11
S&P/ASX All Ords Index					1.00

Source: IRESS, Aegis Equities Research.

As can be seen in Figure 10, the current value NTA for BTC was negatively correlated with the ASX Healthcare Index and S&P/ASX All Ords Index, while being positively correlated to the NASDAQ Biotech Index. Aegis believes the nature of the private equity sector is such that correlations will traditionally be low.

A private equity investment has the capacity to behave very differently to the market, as the ability of the manager to select investments with potential growth opportunities far outweighs the ability of the market to influence returns.

Figure 11. Correlation of BTC Current NTA as at 31 July 2005



Source: IRESS, Aegis Equities Research.

Therefore, investors may achieve diversification benefits by including BTC within an investment portfolio. However, these diversification benefits do come at the expense of including a highly volatile and/or speculative stock.

Liquidity

On average, A\$616,776 worth of BTC shares are traded every month. This is approximately 1.87% of BTC's total market capitalisation. Annual share turnover is A\$7.8M or 23.71% of total market capitalisation.

This is a reasonable turnover for a company of this size and allows investors to liquidate their investment or increase their exposure to BTC in a reasonable period. However, if an investor was to take a large position, it may take some time to fully liquidate this holding.

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Valuation Methodology

BTC has broadly adopted Australian Venture Capital Association Ltd (*AVCAL*) guidelines with regard to the pricing of the securities within the portfolio.

AVCAL is the national association that represents venture capital (*VC*) industry participants, promotes the industry and encourages investment in growing business enterprises.

Membership comprises: *VC* firms; institutional investors; banks; incubators; angels; corporate advisors; accountants; lawyers; government bodies; academic institutions; and other service providers to the industry.

AVCAL's *VC* members represent most of the active *VC* firms in Australia. These firms provide capital for seed and pre-seed ventures, early stage companies, later stage expansion, and the finance for management buy-outs and buy-ins of established companies. There are 51 investor members, with A\$10 billion invested or available for investment.

The valuation guideline essentially treats the pricing of listed and unlisted companies separately. For unlisted companies this guideline requires:

- Investments to be carried at cost;
- Investments to be revalued downwards in the event of an arms length, third party setting a lower price, or if there is a permanent diminution in value; and
- The BTC Board retains discretion in valuing any unlisted investment upwards.

For listed securities this guideline requires:

- Valuation of listed companies to be at market price less a discount of 5-25%; and
- The discount is to reflect issues such as the size of the companies' holdings, liquidity, etc.

Details of the Underlying Companies

A description of the underlying companies in the BTC portfolio, which includes the companies' market position, investment made, milestones, performance since investment and an assessment has been provided as Appendix 1 to this report. The figure below provides the value of the BTC portfolio at 31 July 2005.

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Figure 12. Value of BTC Portfolio as at 31 July 2005

Company	ASX Code	Cost Value (A\$)	Current Value (A\$)
Listed Securities			
Alchemia	ACL	2,000,000	1,828,103
Clinical Cell Culture	CCE	3,094,101	9,344,076
Phylogica	PYC	2,500,000	3,988,502
Prima Biomed	PRR	924,000	641,225
Prima options	PRRO	-	63,400
Starpharma	SPL	2,520,000	1,437,366
Stem Cell Sciences	STEM (AIM)	3,000,000	4,536,925
Total Listed Securities		14,038,101	21,839,597
Unlisted Securities			
Biocomm		3,000,000	3,000,000
Contenance Control Systems		2,000,000	2,000,000
Pacific Knowledge Systems		2,320,841	2,320,841
XRT		5,625,000	5,625,000
Total Unlisted Securities		12,945,841	12,945,841
Cash		10,152,420	10,152,420
Total		37,136,362	44,937,858

Source: Biotech Capital Limited.

The share price of BTC at 31 July 2005 was A\$0.39. The NTA of the portfolio was A\$0.50. The share price represents a 20.86% discount to the NTA of the portfolio. While there is a significant difference between the NTA and share price, the discount has been contracting since April 2005, when it was at 29.68%.

Fees & Commissions

As we previously noted, BTC listed on the ASX in August 2000. Commissions for investing into BTC are, therefore, not applicable. Fees are detailed below:

- **Ongoing Fee.** 2% per annum of net assets, calculated and payable monthly to Titan; and
- **Performance Fee.** 10%, based on the realised gains offset by unrealised and realised losses. The performance fee is subject to a high watermark. No performance fee has been paid to date.

As part of the management agreement between BTC and Titan, the following fee rebates have been negotiated:

- Titan is entitled to a 2% fee covering the first A\$55M of funds in BTC. Titan then rebates 30% of any additional fee income back to BTC. Therefore, if BTC becomes a A\$100M fund, the net effect is that Titan earns 2% of A\$100M (equivalent to A\$2M) and then rebates 30%, keeping A\$1.4M. Effectively, the ongoing fee then becomes 1.4% after the rebate; and
- Titan has agreed to share 30% of any revenue from future biotechnology funds it may manage with BTC. This includes any performance fee payable by BTC to Titan. After the rebate, the performance fee will effectively be reduced from 10% to 7%.

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5. Investment Process

Investment Process

The investment process focuses on investing in the companies and not in the technology. Titan believes that unless the company is managed well by the right people, the company's IP could be worthless.

Through the investment process, Titan seeks to identify three main criteria:

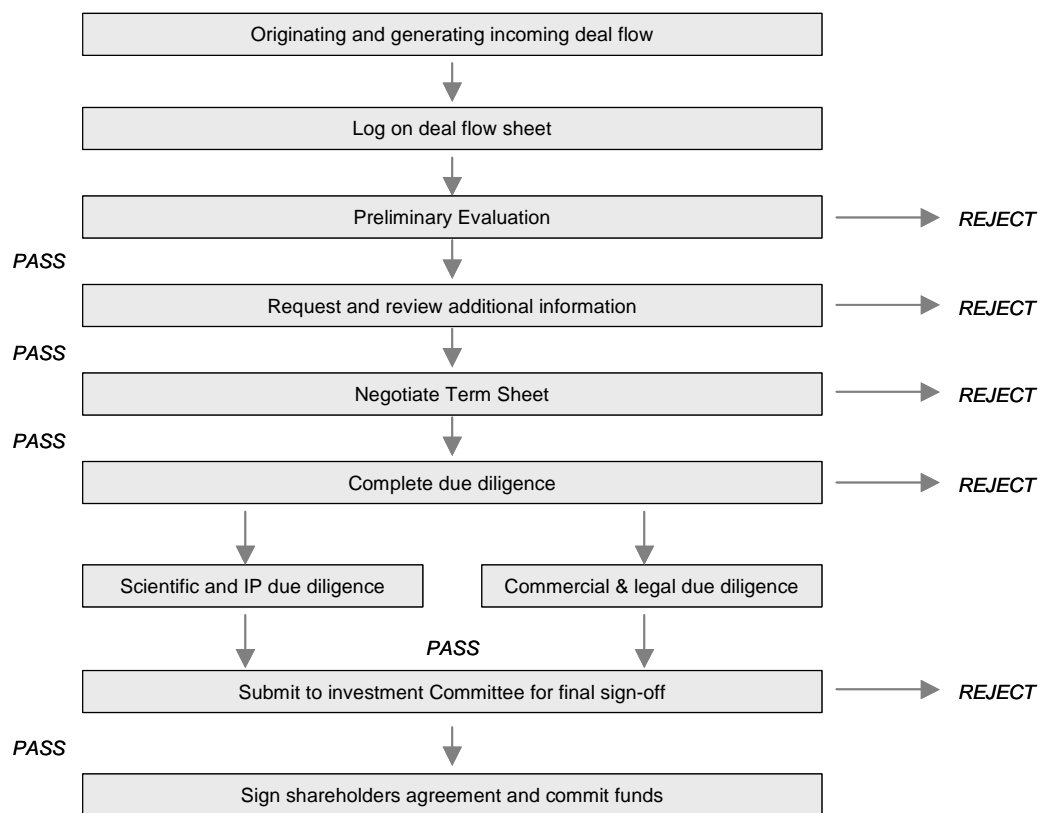
- **IP.** The IP is the underlying company's asset. The asset can take many forms such as new technology, new medical procedures or research into a specific field;
- **People.** These are the people involved with the IP. If the wrong people are involved with the IP, this may impact how, or even if, the IP ever makes it to market; and
- **IP Good or Bad.** Determining if the IP is a good or bad investment. Does the market need the IP under development?

Titan undertakes due diligence on investments with strong IP, strong management and a solid share register.

The investment process Titan uses is similar to the private equity investments reviewed by Aegis. Titan only ever invests into a small percentage of all the presented deals.

Throughout our review process, Titan advised it has seen 350 total deals, commenced due diligence on 25 companies, concluded on 12 companies and exited from two companies. The investment process BTC follows is shown in Figure 13.

Figure 13. Investment Process



Source. Biotech Capital Limited.

The preliminary evaluation step is as far as most of the proposals make it. It is at this point that a decision is made as to whether to proceed.

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If the decision is to proceed, and following a request for and review of additional information, a term sheet negotiation takes place. A term sheet is a document describing the relationship between BTC and the underlying company. The negotiated term sheet states:

- The total capital investment requested;
- The security (usually in the form of a preference share); and
- The terms of the investment.

In completing due diligence, Titan receives advice from Foursight (its SAB). The SAB reviews the terms of the deal independently and forms its own recommendation.

The entire process usually takes several months.

Investment Guiding Principles

BTC does not have any stated risk constraints on the portfolio. Risk is managed, however, through the guiding principles adopted by Titan for the investment process. This is typical of most private equity investments reviewed by Aegis. The guiding investment principles can be summarised as follows:

- Diversification across various stages of development and fields of interest;
- Adoption of private equity investment techniques;
- Negotiation of favourable investment terms, including;
 - Anti-dilutes. (To ensure subsequent share issues do not dilute the position BTC has by retaining the same proportional shareholding.);
 - Board seats in the underlying investment. (To ensure BTC is able to influence the company's direction in line with its preferences.); and
 - Preferred returns;
- Syndications;
- Actively assisting the company (through their position on the Board and via their contacts, both domestically and globally);
- Limiting BTC's holdings to a maximum of 4.5%. (By keeping its holding below 5%, BTC does not need to be disclosed as a substantial shareholder.);
- Not holding listed securities for the long term. (Once the company lists, BTC will look to exit the company.); and
- Capital management through a return of profits to shareholders (via a combination of buybacks and dividends).

These guiding principles seek to ensure there is an element of control throughout the investment.

Titan, like any manager, seeks to maximise the return from their investment in the underlying company. Titan aims to use its knowledge and experience to bring the company's IP to market by being actively involved throughout the life cycle of the company.

Foursight Associates

Foursight is Australia's premier life sciences advisory firm, specialising in science and technology assessments.

The four principals, who each have impeccable scientific credentials, serve together as the SAB of BTC. A detailed biography of each principal is included below in Section 10. In brief, the principals are:

- Dr Graham Mitchell, who has been a Director of Research in the Research and Development (*R&D*) Division of CSL Ltd, has worked with the World Health Organisation and is a principal advisor in Science & Technology to the Victorian Government;
- Dr John Stocker, who has been CEO of CSIRO, a member of the Prime Minister's Science, Engineering and Innovation Council and the Chief Scientist of Australia;

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- Sir Gustav Nossal, who has been Director of the Walter & Eliza Hall Institute of Medical Research (WEHI), President of the World Body of Immunology, President of the Australian Academy of Science and a member of the Prime Minister's Science, Engineering and Innovation Council; and
- Professor David Pennington, who has been Vice-Chancellor of the University of Melbourne, Dean of the Faculty of Medicine at the University of Melbourne, Chief Adviser on Health Policy to the Victorian Health Department, and Chairman of Cochlear.

Foursight's biomedical assignments include: authoring independent expert reports; undertaking technology evaluations on behalf of companies or investors; identifying commercialisation options; packaging commercial opportunities to secure funding; advising on IP development; analysing R&D structures; and evaluating commercial arrangements.

In addition to undertaking assignments as part of Foursight, each of the principals hold various other positions and undertake tasks nationally and internationally in their own right.

Fields of Interest

The biotechnology sector contains many different fields of study. Investing into biotechnology companies requires specialist knowledge of the particular field. Titan is constantly evolving its intelligence across a range of different types of technologies that could be considered desirable investment opportunities.

The fields of interest in which Titan is currently invested or reviewing for potential investment are outlined below.

Post-Genomics

Post-Genomics is the process of understanding the genetic and molecular basis of disease. Investment opportunities exist in companies developing post-genomics solutions.

Areas within this field of study include:

- *Functional Genomics*. Identification of gene functions and their role in the disease process;
- *Transcriptomics*. Involves the large-scale analysis of messenger RNAs (molecules that are transcribed from active genes) to determine when, where and under what conditions genes are expressed;
- *Proteomics*. The study of protein expression and function to elucidate proteins' role in the disease process. Because proteins are common drug targets, analysis of proteins is more direct than looking at precursor genes and mRNA;
- *Structural Genomics*. Generating the three-dimensional structure of proteins to assist in the identification of the characteristics of compounds that will effectively interact with active sites in target proteins;
- *Glycomics*. This field studies the biological function of carbohydrates and patterns of expression as modulated by the environment and the physiological state of the organism; and
- *Pharmacogenomics*. The analysis of genetic variations among individuals and the effect those variations may have on the individual's susceptibility to disease or response to treatment.

Stem Cell Biology

Research is being undertaken on cells with the ability to differentiate into other cell types, which can be used to regenerate damaged tissue and organs. Most of the research within the area is targeted at understanding the differentiation process in embryonic stem cells and adult stem cells.

This field of research has enormous implications for the future of medicine — from streamlining the drug development process to eventually developing cell therapies. In the future, stem cells may be used to treat such conditions as Alzheimer's disease, Parkinson's disease and spinal cord injuries.

While this area often sparks major ethical debate and can polarise the community, Titan believes the tremendous benefit to humanity from research in this area cannot be ignored.

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Convergence

The rapid pace of technology advances and science in recent years is driving a very powerful convergence of many previously discrete industries. Life science companies are increasingly becoming innovators, developing technology to act as a bridge between industries. Biology is serving as the inspiration for developing pioneering products in many industries seeking to get an edge over the competition. Titan expects to invest in companies developing convergent technology platforms that are the leaders in the drive towards a single, unified discipline that incorporates sciences such as information technology, materials science, chemistry, physics and biology.

Examples include:

- *Biomaterials*. A broad discipline that represents the interfacing of biology with materials science to develop materials with improved characteristics, for a wide variety of applications;
- *Bionics*. The science of constructing artificial systems with some of the characteristics of living systems;
- *Biosensors*. The coupling of biology with advances in microelectronics;
- *Tissue Engineering*. This combines advances in cell biology and materials science, allowing scientists to create semi-synthetic tissues and organs in the laboratory;
- *Systems Biology*. Utilising exponential advances in computing power and improved mathematical algorithms, cross-disciplinary groups of scientists are attempting to build computational software that focuses on the broader biological system and its component interactions; and
- *Microfluids*. This process fuses advances in microfabrication, materials science and fluidics. The result is that minute amounts of fluids may be channelled around on a chip surface to perform experiments, resulting in order of magnitude improvements in time and cost.

Silicon Biology

Information technology has evolved to become an integral component of the modern drug discovery process, transforming and accelerating many steps in the pipeline. A process that begins with basic research and concludes with disease-specific pharmaceuticals.

Examples of this approach include:

- *Structure-based Drug Design*. Using sophisticated computer modelling techniques, chemists are seeking to design a molecule that binds to the active site and is selective against that drug target;
- *Virtual Screening*. A compound library is screened for leads by a computer model that assigns a score to molecules depending on their degree of affinity to a target;
- *Computational Library Design*. Computational modelling designs a library for maximal diversity with fewer compounds. It then, normally, follows an iterative process to design focus libraries with properties similar to the best ones previously found; and
- *In Silico ADME/tox*. Computer models predict the ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicology) properties of new molecules.

Nanomedicine

Nanomedicine is the monitoring, repair, construction and control of human biological systems at the molecular level, using nanodevices and nanostructures.

Nanotechnology allows scientists to work at the cellular and molecular level to produce major benefits for the life sciences.

Titan is closely following the progress of nanotechnology research. It will choose to invest in ventures with enabling platforms sufficiently advanced to allow an exit within a reasonable period.

6. The Biotechnology Sector

Definition

Biotechnology is technology based on biology, especially when used in agriculture, food science and medicine. In 1992, at the UN Convention of Biological Diversity, biotechnology was defined as “any technological application that uses biological systems, living organisms, or derivatives thereof, to make or modify products or processes for a specific use”.

This definition tends to oversimplify. Biotechnology can involve the discovery, research and testing of diseases, the human body, technology and medical procedures.

Similarity with Private Equity Investing

Earlier, we stated BTC could be considered a specialised, private equity investment. We have formed this view as investing in private equity usually involves investing into the debt or equity and assets at various stages of development of unlisted companies.

BTC provides both listed and unlisted companies capital, to enable the further development of particular technologies.

In this regard, the philosophy and investment techniques are similar for private equity investing and investing into a biotechnology-investing portfolio.

Past Performance

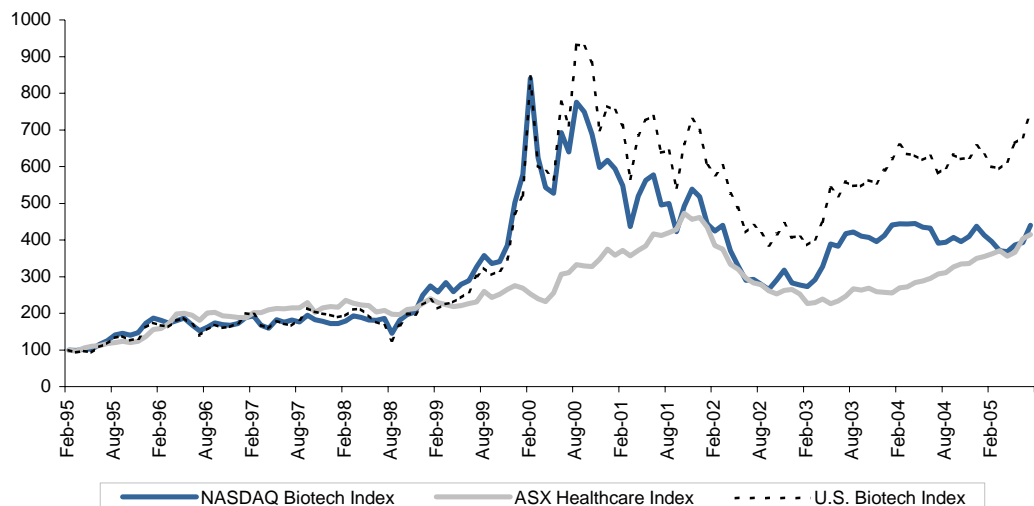
The biotechnology sector within Australia is relatively small, compared to the global sector. A number of Australian biotechnology companies have exposure to international markets and are subject to the same performance standards as international biotechnology firms.

Figure 14 compares a number of international indices against the Australia Healthcare Index. However, the Australian Healthcare Index is predominantly composed of a small number of large companies that are not strictly biotechnology companies. They may be diversified amongst a number of healthcare related sectors.

Performance analytics are also made for the following equity indices:

- **NASDAQ Biotech Index.** The index is comprised of NASDAQ listed companies with market capitalisation greater than US\$200M and classified as biotechnology or pharmaceutical, according to the FTSE Global Classification System; and
- **US Biotechnology Index.** Companies primarily involved in the use of biological processes or that provide biological services are included in the index. Biotechnology stocks listed on the American Stock Exchange are equally weighted in this index.

Figure 14. Performance of Biotechnology Indices to 31 July 2005



Source: IRESS, Bloomberg, Aegis Equities Research.

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The ASX Healthcare Index is comprised of a small number of large companies. Therefore, it displays less volatility than the NASDAQ Biotech Index and the US Biotechnology Index.

Figure 15. Biotechnology Index Returns from February 1995 to 31 July 2005 (% return p.a.)

	1 Year	3 Year	5 Year	10 Year
NASDAQ Biotech Index	12.49%	14.62%	(7.21)%	13.38%
ASX Healthcare Index	34.85%	13.56%	5.93%	13.44%
US Biotechnology Index	29.32%	19.56%	1.07%	20.38%

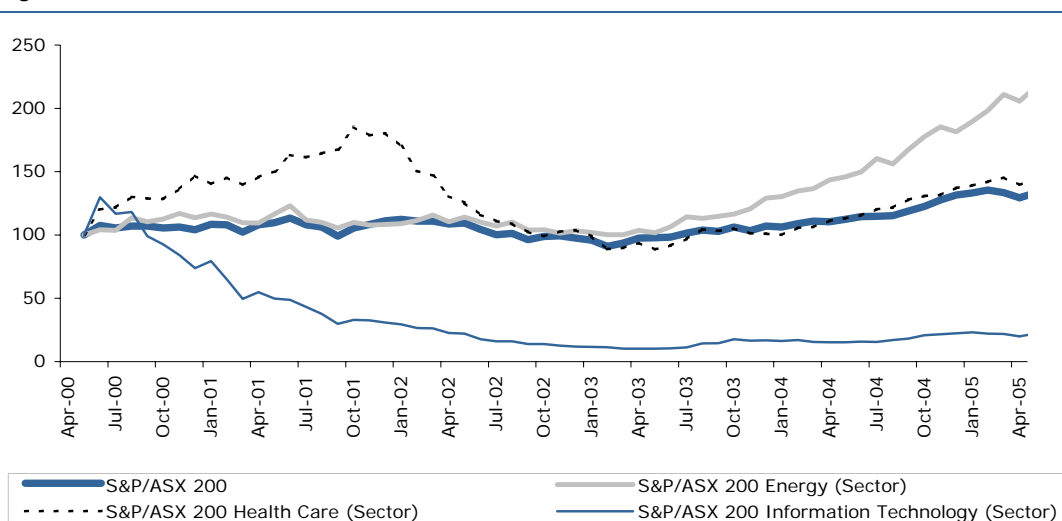
Source: IRESS, Bloomberg, Aegis Equities Research.

Very solid annualised returns can be seen for all indices over a ten-year period. However, in the shorter term, index performances have been volatile. Therefore, investors should only invest into the biotechnology market with a longer-term investment view.

The Australian biotechnology market has performed reasonably well over a long period, however, in more recent times, it has been outperformed by other sectors of the market.

The ASX publishes the S&P/ASX 200 Healthcare Index and only includes institutions of a reasonable size. The S&P/ASX 200 Healthcare Index tends to be dominated by a small number of large companies within the healthcare sector. These institutions tend to be diverse across a range of healthcare sectors, and therefore, are more likely to perform with general market conditions, in comparison to small biotechnology firms.

Figure 16. Five-Year Performance of Australian Healthcare Sector



Source: IRESS, Aegis Equities Research.

Investing in Biotechnology

Investing into the biotechnology sector can be very difficult, as each biotechnology company seems to have an innovative product that seems set to revolutionise the industry. The difficult part is determining which companies are able to ensure a successful transition through the various development stages.

Successful investments into a biotechnology company generally have similar characteristics. Below is a list of criteria Aegis has identified:

1. *Pipeline*. The pipeline describes the portfolio of compounds or product candidates under R&D. A deep pipeline helps diversify investor risk;

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2. *Milestones.* These are key deliverables achieved by a company over time, such as the completion of a particular clinical trial; grant of regulatory approval for a drug; or execution of a licensing agreement with a commercialisation partner. Milestone progress gives comfort to investors a company is achieving substantive targets within an acceptable time frame;
3. *IP.* IP refers to an underlying company's unique, protected assets. Usually in the form of patents around proprietary compounds, target receptors or processes, but they may also be in the form of trade secrets. Novel IP is necessary to attract partners and funding and to build a sustainable earnings stream;
4. *Markets and Competition.* The value of a company increases in proportion to the size of the potential markets addressed by its R&D pipeline and its approved drugs. For the same reason, the value of a company declines in proportion to the intensity of competition faced by each compound or product in its portfolio in their respective markets;
5. *Partners.* As the cost of bringing a new chemical entity to market in the world's largest market, the US, generally runs into the hundreds of millions of dollars, biotechnology companies must find *deep-pocketed* partners (typically major pharmaceutical companies) to fund pivotal clinical trials and post-approval commercialisation campaigns. The quality of the partner and nature of the deal sends a strong signal about a biotechnology company's prospects;
6. *Board, Management and Scientific Advisers.* Biotechnology companies face a very difficult path to success. Decisions regarding research priorities and commercial strategies are complex, requiring highly regarded Boards and management teams with proven sector track records. The companies also need guidance from scientific experts who are leaders in their fields;
7. *Commercialisation Strategy and Execution.* The commercialisation strategy involves defining the company's approach to extracting value from the IP assets. Patent management, partnership choices, pipeline prioritisation, licensing deal structures, financing options and manufacturing solutions all form part of the commercialisation mix. The quality of execution determines how well the commercialisation strategy is realised;
8. *Financial Management.* Biotechnology companies typically have a relentless need for cash to fund R&D, so a key determinant of success or failure is how well the company manages its funding needs and controls its rate of cash burn;
9. *Valuation.* Market values for biotechnology firms are driven more by news flow and sector sentiment than by earnings models, making valuation of these companies more of an art than a science. In the end, however, true value is driven by future cash flows, in the same way as it is for all other businesses. Valuation models, therefore, become more reliable as licensed drugs reach the market and build sales records;
10. *Key Risks.* Biotechnology firms face a unique set of risks relating to drug properties (unpredictable efficacy, unexpected side effects); trial processes (manufacturing difficulties, patient enrolment delays, trial failures); regulatory approvals (requests for more data, subjective comparisons with existing drugs); patent disputes (infringement suits by competitors, invalidation actions by licensing partners); and periodic cash crises;
11. *Major Shareholders and Register.* Investors take comfort from the presence of specialist sector investors on the register of a biotechnology company. Institutional presence on the register is also desirable as institutions are sophisticated investors that tend to have stable, long-term investment horizons; and
12. *Investor Management.* The significance of news about the key elements of the biotechnology company's core business (the science, patents and trial results) is difficult for most investors to understand. Despite this, such news determines investor sentiment, which, in turn, is a key driver of the market value of the company. It is, therefore, essential for biotechnology companies to actively manage the investor base with a stream of clear communications that articulate and interpret company progress.

Biotechnology and Lifecycles

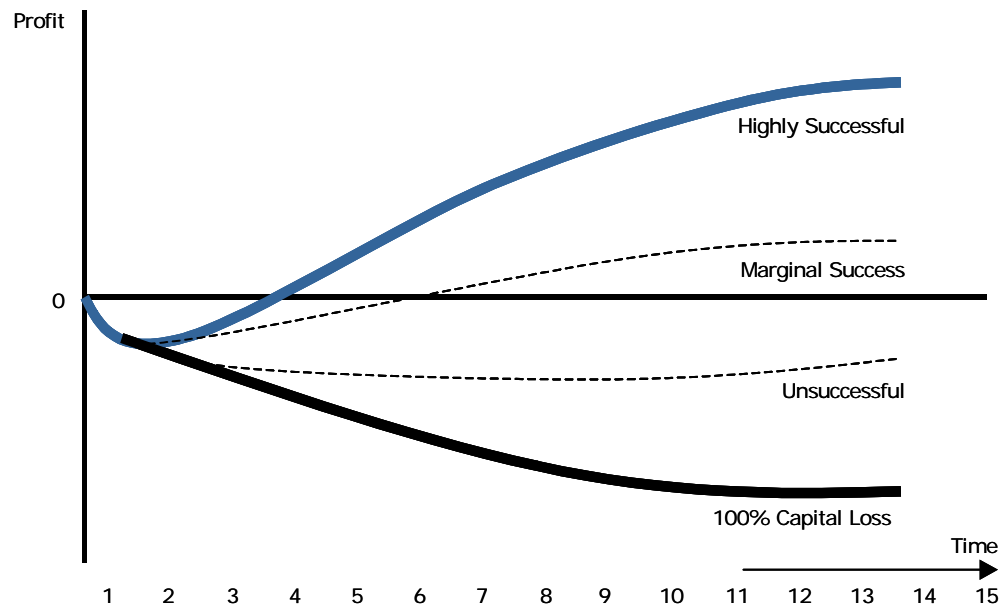
Typically, it will take some time for an investment into a biotechnology company to produce returns to investors. This delay is similar to private equity investing, whereby there is a delay between investing into the company and the company then becoming a profitable venture with an exit strategy.

Investors should note BTC is an established investment and this removes some of the risk in the delay between raising any funds, and then finding suitable investments.

Distributions to investors tend to occur as the portfolio of underlying companies matures and at least one company exit has been experienced. Therefore, volatility in an investor's portfolio will typically occur in the first one to five years, due to the need for draw downs.

Figure 17 illustrates this process more clearly. Similar to the private equity *J curve*, the internal rate of return profile occurs roughly when 80% of the cash is called on and returns start to be distributed. Positive returns start to be realised around years four to five.

Figure 17. Lifecycle of Biotechnology Investing



Source: Aegis Equities Research.

Similar to private equity investing, the pay off for biotechnology investing is in minimising the amount of money lost, and finding one or two investments that will provide a return in excess of ten times the amount invested.

BTC expects at least one investment in every ten to provide this sort of return, with three to five companies expected to return around two to three times the amount invested. The remaining companies are expected to range from a 100% loss to a 20% gain on the amount invested.

Investors should note actual returns provided by the underlying companies could significantly deviate (both positively and negatively) from these expected outcomes.

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7. Pooled Development Funds

What is a Pooled Development Fund?

PDFs are companies that raise capital from investors and then invest that capital in small to medium sized enterprises (*SME*), allowing them to grow their business. PDFs are registered with the Australian Federal Government. They operate under strict regulations. For example, a PDF can only invest funds in enterprises with total assets of less than A\$50 million and with primary activities that do not include retailing or property development. All investments must be in newly issued shares. In addition, a PDF cannot invest more than 30% of its paid-up capital in any one enterprise.

The *Pooled Development Funds Registration Board Annual Report 2003-2004* stated there were 107 active PDFs as at 30 June 2004. During the 2003-2004 financial year, these companies raised A\$51M (A\$766M has been raised since 1993).

What are the Benefits of a Pooled Development Fund?

PDFs and their shareholders receive tax benefits on the income derived from their equity investments. This is intended to compensate for the higher risk of investing in SMEs. PDFs are taxed at 15% on the income and gains derived from equity investments in Australian SMEs.

PDF shareholders are exempt from tax on the income and gains derived from holding and disposing of PDF shares.

The extent of the above tax benefits depends upon a number of factors. PDFs and their shareholders should seek professional tax advice.

What Investments are Eligible?

PDFs invest *patient capital* into Australian companies (in exchange for newly created shares in that company) for the purpose of assisting the company to:

- Establish an eligible business, either alone or with another party or parties;
- Increase substantially the production capacity or supply capacity of an established eligible business; and
- Expand existing markets substantially, or develop new markets for goods and services.

While a PDF holds an investment, it is allowed to enter into the following transactions with the company:

- Acquiring non-transferable options to buy shares;
- Lending money; and
- Charging management fees.

8. SWOT Analysis

Strengths

- Titan, via BTC, invests in a variety of biotechnology companies (both listed and unlisted), across various stages of development and thus provides diversified investment in the biotechnology sector.
- Titan has a well-established investment process that includes consultation by an internationally esteemed SAB.
- Titan should benefit from its many industry contacts around Australia and globally, particularly in the European market where a member of the investment team is located.
- BTC's fee structure is very reasonable and transparent for an investment of this nature.
- Similar to private equity, investing directly into biotechnology investments can often mean large amounts of money are *tied up* in the investment and thus illiquid. BTC overcomes this by being listed on the ASX, thus providing liquidity potential to investors.

Weaknesses

- There is an inherent level of risk associated with biotechnology investment. It is possible investors could lose all their capital.
- While we have stated the portfolio is diversified, it should be remembered the diversification extends only as wide as the biotechnology sector and that there are only 10 investments at present. Investors should be mindful of this before investing, as the portfolio cannot be considered as diversified as a portfolio in a traditional equity listed managed investment.
- There is no guarantee BTC will be able to exit underlying companies and thus realise capital gains.

Opportunities

- The biotechnology sector has been in a downturn since 1999-2000, presenting many buying opportunities.
- Depending upon an investor's portfolio, an investment into the biotechnology sector in a diversified portfolio can provide further diversification.

Threats

- If suitable investments cannot be found, investors' monies will be predominantly held in cash for extended periods.
- If the underlying companies do not perform, that may result in capital loss to the investor.
- The continuation of the negative sentiment to the biotechnology sector may affect BTC's market price.
- A member of the Titan investment team may leave, causing instability in the investment process.

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9. Risks

Investing in biotechnology brings with it many risks. We highlight the risks associated with investing in this sector as well as in investing into BTC. Please note this list is not exhaustive.

Investing in the Biotechnology Sector

- **Market Risk.** The various different components of the biotechnology sector have a number of cycles that do not necessarily correlate with each other. As such, it is possible investors may experience negative returns when equity markets are strong. General economic conditions are also a key determinant of the performance of the biotechnology sector as well as the availability of high quality investments.
- **Performance Risk.** Biotechnology is a high-risk investment class. As such, past performance is not a strong indicator of expected performance. Due to the nature of biotechnology investing, it is probable some underlying investments will fail. In this instance, the impact on BTC will be dependent upon the degree of diversification.
- **Differentiation of IP.** The success of the effect of the IP will largely be determined by the differentiation of the IP from similar advancements and how well it is protected.
- **Sector Sentiment.** The current market view of the biotechnology sector will influence the returns investors may receive, despite the underlying performance of the investment manager or underlying companies.
- **Ability to Raise Cash.** As companies develop and patent the IP, the issue of raising money to further develop the technology will arise. The success of the IP will depend on how much money can be raised and how much can be spent on further R&D.
- **Technology Risk.** Technology risk occurs where the patented IP becomes obsolete due to further advances in that particular field. It is the job of the underlying company to ensure it is continually monitoring advancements in its particular area.
- **Ownership Risk.** Ownership risk relates to the exclusive control of the IP by the person claiming that ability. Ownership risk will be determined by whether the person has a valid IP patent and actually has title to the claim as well as freedom to operate in the designated area.

Investing in Biotech Capital Limited

- **Availability of Investments.** The performance of BTC is related to the ability of Titan to source suitable investments. A lack of suitable investments will have an impact upon the performance of BTC.
- **Liquidity Risk.** Half the portfolio is in listed securities. The remaining half of the portfolio is in unlisted securities. In the event BTC wishes to exit these unlisted investments before the company lists, there is a risk the investment will not be able to be exited at the price determined, under AVCAL guidelines.
- **Manager Risk.** Investing into biotechnology using an investment manager brings the focus to each manager's ability to select viable investment opportunities. Aegis is confident in the manager's ability, however, no guarantee can be given that the manager will continue to perform strongly.
- **Key Person Risk.** The current Titan investment team has varied experience in the biotechnology sector. The loss of key personnel may inhibit BTC's ability to produce strong returns or to source suitable investments.
- **Risk Management.** Effective risk management depends on a range of factors, including diversification of investments across individual securities, sub-industries and stages of development.

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10. Entities Involved

Biotech Capital Limited

BTC is a biotechnology investment company. BTC invests in a range of small to medium sized biotechnology companies, both listed and unlisted. The company aims to build a portfolio of 10 to 20 high quality companies.

Titan BioVentures Management

Titan is one of Australia's leading life science investment groups and is a dedicated provider of private equity to the sector. Titan has assembled a network of partners across the world, ensuring it can effectively assess opportunities, enhancing the prospect of success and significant returns for its investors.

Board of Directors – BTC

Bill Ireland. Bill is the Managing Director of Mariner Financial Ltd. Before this, he was the principal shareholder of the listed company Challenger International Ltd (*Challenger*), which he established in 1986. Over the last five years, Challenger developed an array of financial products for local and overseas investors.

Bill has extensive financial market experience with a background in trading shares and options. He was instrumental in developing a series of innovative financial products to the Australian market.

Harry Karelis. Harry is the Managing Director of Biotech Capital Limited. Harry graduated from the University of Western Australia with a Bachelors and Honours in Science, majoring in Biochemistry and Microbiology, as well as a Masters in Business Administration. He is an Associate of the Securities Institute of Australia and a Fellow of the Australian Institute of Company Directors. He has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States.

Harry has a background in financial analysis and funds management in Australia and overseas, including several years working in Singapore, where he was employed by a major international bank.

Alastair Davidson. Alastair is Managing Director of Aurora Funds Management, based in Sydney. Before this, Alastair held executive positions in the banking and financial services industry for 15 years in the UK, US and Australia. This included Salomon Smith Barney, in Sydney, for eight years, as co-head of its new product group, specialising in equity derivatives.

He is a member of the Institute of Chartered Accountants in Scotland and has an Honours degree in Economics from the University of St Andrews.

Dr Lisa McIntyre. Lisa is a Director with L.E.K. Consulting Pty Ltd, where she leads the Asia Pacific Life Sciences practice. She has over twelve years consulting for the life sciences and biopharmaceutical industries and has advised many of the world's leading biotechnology companies including Genentech, Inc, Genzyme Corp, Chiron Corp, Celera Genomics and Millennium Pharmaceuticals, Inc, in addition to her work with a large number of venture-backed biotechnology companies across a range of innovative technologies.

Since returning to Australia from the United States in 2002, Lisa has worked with leading local companies such as AMRAD Corp Ltd, Biota, Inc, Mayne Pharmaceuticals, Progen Industries Ltd, the CSIRO and many others.

Lisa also works as an advisor to the New Zealand government on issues including commercialisation strategies for New Zealand's domestic biotechnology sectors.

Lisa is a Director of the Garvan Institute of Medical Research, a past member of the NSW Cancer Research Advisory Council and is a regular presenter at AusBiotech conferences and, before 2002, at Biotechnology Industry Organisation conferences and Massachusetts Biotechnology Council meetings.

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Lisa graduated from the University of Sydney with a B.S. Honours degree and the University Medal in Biochemistry. She went on to earn her PhD in Physical Chemistry from Jesus College, Cambridge University, where she was a Commonwealth Scholar. Her doctoral research focused on the development of new techniques in high-resolution NMR spectroscopy.

Professor Tony Basten. Tony is the Executive Director of the Centenary Institute of Cancer Medicine & Cell Biology, Professor of Immunology at the University of Sydney, Director of the Central Sydney Area Health Clinical Immunology and Allergy Service and Chief Scientist at CenTec.

Tony was the winner of the inaugural Wellcome Australia Medal for Distinguished Discovery and its Demonstrated Use; a Florey Lecturer of the Royal Society, London; and the Chief Commonwealth Advisor on the medical and scientific aspects of HIV/AIDS. He is a clinician and scientist and his research spans the interface between the laboratory and the bedside.

On the commercial front, Tony has secured, together with colleagues, a number of industry grants. He has gained experience in running clinical trials and he has served on the SABs of biotechnology companies.

In recognition of his contributions to medicine, health and medical research, Tony became an Officer in the General Division Order of Australia. In addition, he was elected to Fellowship of the Australian Academies of Science and Technological Sciences and Engineering.

Scientific Advisory Board

Sir Gustav Nossal. After graduating in medicine at Sydney University, Sir Gustav became a Research Fellow at the Walter and Eliza Hall Institute of Medical Research, achieving a PhD and, ultimately, Directorship of the Hall Institute in 1965. He was also Professor of Medical Biology at the University of Melbourne.

Sir Gustav has written five books and 500 scientific articles. His eminence in the field was recognised by his election as President of the International Union of Immunological Societies from 1986 to 1989. He has also served as President of the Australian Academy of Science; a member of the Prime Minister's Science, Engineering and Innovation Council; and a member of the Board of CSIRO. He chairs the World Health Organisation Committee, overseeing the global program for vaccines and immunisation.

He was knighted in 1977 and then made a Companion of the Order of Australia. He was made Australian of the Year in 2000. He has also received honours in the US, the UK and other countries.

Dr Graham Mitchell. A veterinary graduate and University Gold Medallist of the University of Sydney, Graham made discoveries in cellular immunology at the Walter and Eliza Hall Institute and obtained a PhD in 1969. He gained research experience in the US, UK and Switzerland. He returned to Australia to establish a new program in immunoparasitology at the Walter and Eliza Hall Institute and was instrumental in establishing a long-term program with the disease schistosomiasis in the Philippines.

Graham has been a director of the Royal Melbourne Zoological Gardens and a Director in Research in R&D at CSL Ltd. He has worked with the World Health Organisation and written more than 350 publications.

He was made an Officer of the Order of Australia for services to medical science. Graham is a principal adviser in Science, Engineering and Technology to the Victorian Government and a non-executive director of several listed biotechnology companies.

Dr John Stocker. Following his medical studies at the University of Melbourne and a residency at the Royal Melbourne Hospital, John embarked on a career in medical research. He joined the Basel Institute for Immunology in Switzerland.

Later, John joined Hoffman-La Roche and Co. in the company's central research unit. He became Roche's Director of Pharmaceutical Research in 1986.

He returned to Australia in 1987 to become founding Managing Director of AMRAD Corp Ltd. From 1990-1995, he served as CEO of CSIRO. He was appointed Chief Scientist to the Commonwealth Government in 1996. He is Chairman of Sigma Company Ltd and of the Grape and Wine Research and Development Corp. He is a Director of Telstra Corp Ltd, the Cambridge Antibody Technology Group plc and Circadian Technologies Ltd.

He has been a member of the Prime Minister's Science, Engineering and Innovation Council and the Australian Research Council and Chairman of the Australian Science Technology and Engineering Council.

Professor David Pennington. A graduate of Oxford University, David was a medical practitioner, teacher and researcher in London. He returned to Australia and he was appointed Professor of Medicine at the University of Melbourne in 1970. He was Dean of the Faculty of Medicine from 1978 to 1986.

In 1988, David was appointed a Companion of the Order of Australia for services to medicine and the community. He has been Chairman of the National Blood Transfusion Committee of the Australian Red Cross Society; Director of the Tianjin Blood Transfusion Development Program; and Chief Adviser on Health Policy to the Victorian Health Department. He has been a Board member of the Royal Melbourne Hospital; the Walter and Eliza Hall Institute; the Peter McCallum Cancer Institute; and the Ludwig Institute for Cancer Research.

David is a former Chairman of Cochlear Ltd (the company which developed and manufactures the *bionic ear*). He is Professor Emeritus of the University of Melbourne.

Investment Team

Harry Karelis. Harry is the Managing Director of Biotech Capital Limited. Harry graduated from the University of Western Australia with a Bachelors and Honours in Science, majoring in Biochemistry and Microbiology, as well as a Masters in Business Administration. He is an Associate of the Securities Institute of Australia and a Fellow of the Australian Institute of Company Directors. He has qualified as a *CFA* from the CFA Institute in the United States.

Harry has a background in financial analysis and funds management in Australia and overseas, including several years working in Singapore, where he was employed by a major international bank.

Justin Hondris. Justin is a Partner in Titan's London operation and provides a vital link to northern hemisphere markets.

His responsibilities include: investment analysis; sourcing partnerships for portfolio companies; interacting with the finance community; and managing exits. He has extensive financial markets' knowledge, networks and experience spanning institutional stockbroking, corporate finance and advisory roles in both Australia and Europe.

Justin holds a Bachelor of Business, is a fully qualified chartered accountant, an Associate of the Securities Institute of Australia and is a past member of Chartered Secretaries Australia Ltd. Justin is also currently a Level 2 candidate in the CFA program.

Andrew Blackmore. Andrew is an Investment Manager at Titan. His responsibilities include: research; assessment; due diligence; and the valuation of investment opportunities. He has a background as an analyst in the technology and investment industries, where his prior experience included industry, market, technology and company research; analysis; and valuation.

Most recently, before his role at Titan, he was a member of a top ranked Australian equities investment team where his coverage included the biotechnology sector.

He holds a Bachelors degree from the University of Otago (New Zealand) and a Masters degree from the University of Sydney, majoring in Economics.

Geoff Pocock. Geoff is an Investment Manager at Titan, and his responsibilities include: research; assessment; due diligence; and the valuation of investment opportunities.

Geoff's background includes over five years working in corporate advisory roles, during which time he worked with a number of developing technology companies, assisting with the development and implementation of business development strategies; raising private and public equity capital; and advising on merger and/or acquisition transactions.

Before his corporate finance experience, Geoff spent several years working as a research scientist within Australia, as well as for Chiroscience plc, a biopharmaceutical research company based in Cambridge, England.

Geoff has several years' research experience as an organic chemist, specialising in drug development and chiral synthetic chemistry methodology. Geoff also has significant experience in the technology transfer of research from research institutes to commercial applications and environments.

He holds a First Class Honours degree in organic chemistry, a Bachelor of Laws and he has completed postgraduate studies in applied finance. He is an Associate of the Securities Institute of Australia.

Appendix – Underlying Companies

The Appendix has been attached to provide a brief overview of each of BTC's investee companies.

Alchemia Ltd (Listed, ASX: *ACL*)

Market Position

ACL specialises in carbohydrate-based drugs, using its own proprietary drug discovery and manufacturing platform technologies. The use of carbohydrates as therapeutic agents has traditionally been limited due to difficulties in large-scale production. ACL's unique technology allows large-scale manufacturing to occur reliably and cost effectively.

ACL has developed a generic version of Arixtra, a synthetic heparin used for anti-coagulation, which has a significant share of the US\$3B market for heparin products. The company has secured a commercialisation partnership with AP Pharma, Inc (*APP*), a major US pharmaceutical company specialising in injectable drugs. APP is funding and managing US Food and Drug Administration (*FDA*) approval of ACL's Synthetic Heparin. Approval is expected in 2008. As a generic drug, this compound qualifies for an abbreviated clinical trial program that should have it ready for market launch by the time Arixtra's patent expires. APP is also responsible for marketing the drug. ACL and APP will profit share on a 50/50 basis, making this a very attractive deal for ACL.

ACL and APP have appointed the US giant, the Dow Chemical Company (*Dow*), as manufacturing partner. Dow is due to complete the manufacture of sufficient drugs for FDA approval purposes by June 2005.

ACL has also used its proprietary drug discovery technology to develop novel antibiotic candidates that have been shown by independent testing to be highly active against multi-drug resistant bacteria organisms. ACL has also developed anti-cancer compounds that work by inhibiting angiogenesis, the process of new blood vessel formation. Angiogenesis inhibitors have a role in treating some cancers as well as an eye disease, age-related macular degeneration, which is a major cause of blindness in the elderly.

Investment

In March 2001, BTC invested A\$2M, at an issue price of A\$0.64 per share, to acquire a 3.3% stake in ACL. BTC's investment was made alongside several other VC groups in a A\$15M capital raising by ACL, which valued its stock at A\$60M. The worldwide manufacturing licence agreement with Dow had already been put into place by ACL in November 2000. Anti-dilution provisions in BTC's investment agreement have enabled BTC to retain a 3.1% interest in ACL after the initial public offering (*IPO*), at no additional cost.

ACL had strong cash reserves of A\$15.9M in June 2005, representing at least two years of cash at the prevailing burn rate.

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Milestones

Since BTC's investment, ACL has achieved the following major milestones.

Date	Milestone
Mar-01	BTC invests A\$2M for 3.3% stake.
Oct-03	Signs a commercialisation agreement with APP for developing and marketing synthetic heparin.
Dec-03	ACL completes IPO.
Feb-04	Discovers a lead angiogenesis inhibitor compound for use against cancer.
Apr-04	Obtains positive results for lead anti-cancer compound in a prostate cancer study in an animal model.
Aug-04	Successfully completes manufacturing scale-up trials proving ACL's synthetic heparin can be made with consistent quality in commercial quantities. Commences pilot scale manufacture of product four months ahead of schedule.
Sep-04	Obtains positive results for lead anti-cancer compound in a lung cancer study in an animal model.
Oct-04	Independent tests confirm ACL's novel class of antibiotic compounds have a unique mechanism of action against microorganisms and are highly effective against some bugs that had developed multiple drug resistance.
Mar-05	Awarded a Pharmaceutical Partnerships Program (P3) grant totalling A\$7.8M over three years, for drug discovery research.
Mar-05	Completes pre-clinical studies on a lead anti-cancer compound.

Source: ACL, Aegis Equities Research.

Performance since Investment

Date of equity investment	Feb-01
Equity holding	3.10%
Cost of investment	A\$2M
Market price at end August 2005	A\$0.615
Value of investment at end July 2005 ¹	A\$1.83M

¹ As defined by BTC's Investment Policy (including provision for tax).

Source: ACL, Aegis Equities Research.

Assessment

- The value of BTC's investment in ACL is 8.5% below its cost after four years.
- This result is inconsistent with the substantial milestone progress made by ACL since BTC's investment, which includes signing APP as its heparin commercialisation partner, validating heparin manufacturing scale-up processes, developing an early stage and preclinical drug pipeline and securing over A\$8M in grant funding.
- ACL appears to have bright prospects overshadowed by the highly negative sentiment affecting the biotechnology sector. The company had A\$15.9M in cash at the end of June 05, representing two years of cash at the prevailing burn rate.

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Biocomm (Unlisted)

Market Position

Biocomm was set up under a Victorian Government initiative to encourage early stage investment in Victorian life sciences companies and to provide business and technology development advice on a commercial basis to established companies. Members of the Biocomm network include four of Australia's most active VCs in the life sciences sector (BTC, Macquarie Bank, Queensland Investment Corp and GBS Ventures (previously the Rothschild private equity team)) and about a dozen of Australia's leading research institutions, including Monash University, The Peter MacCallum Cancer Centre and the Baker Heart Research Institute.

Biocomm provides investee companies with seed funding, advisory services and access to professional networks. Early stage companies need scientific guidance as well as assistance with commercial issues, particularly licensing considerations and IP management. Biocomm has been successful at building an international client base for its licensing advisory services. In Australia, Biocomm has undertaken commercial work for Mayne Pharmaceuticals, Chemgenex Pharmaceuticals, StarPharma Holdings Ltd and others. The firm has also secured clients in the UK (Onyvax Ltd, Vernalis plc), Ireland (Opsona Therapeutics), Canada (Stressgen Biotechnologies Corp), New Zealand (NeuronZ Ltd) and Japan (LocomoGene Inc).

Biocomm has total funding commitments from participating venture funds of around A\$12M. Each fund contributes money to approved Biocomm investments as the investments are made. If Biocomm ceases investing or is closed down, the balance of any money not yet invested stays with the venture funds. The deal has therefore been structured to limit liquidation risk to the venture funds.

Investment

BTC invested A\$3M in Biocomm in June 2002.

Milestones

Since BTC's investment, Biocomm has achieved the following major milestones.

Date	Milestone
Jun-02	BTC invests A\$3M for a 24% stake.
Feb-04	Biocomm commits to investing about half of an A\$2M seed round in Cryptopharma Pty Ltd (<i>Cryptopharma</i>), which has an anti-inflammatory portfolio to target asthma, pulmonary fibrosis and other chronic inflammatory diseases of the lung. Biocomm's investment will be made in three or four tranches over time and as milestones are met, mitigating investment risk.
Sep-04	Cryptopharma receives A\$1.5M START grant.
4th Quarter 2004	Biocomm provides a small amount of seed funding to Hatchtech, a company with a platform technology for controlling certain parasites. The initial product is designed to combat head lice in humans. Future products will be directed at cattle and sheep parasites.
1st Quarter 2005	Biotech provides a small amount of seed funding via Biocomm to CNS Bio, which is developing novel pain relief compounds targeting cancer patients.

Source: Biocomm, Aegis Equities Research.

Performance since Investment

Date of equity investment	Jun-02
Equity holding	24% stake, plus 300,000 5 year A\$1 options.
Cost of investment	A\$3M

Source: Biocomm, Aegis Equities Research.

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Assessment

- Biocomm provides early stage deal flow for investments too small to warrant BTC undertaking due diligence itself. As the Victorian Government essentially funds Biocomm's overheads, the majority of the screening and due diligence work is carried out without cost to BTC and its three co-investing VCs.
- As noted above, BTC's risk is mitigated by its entitlement to receive back any uninvested funds should Biocomm cease operations. BTC also enjoys a 24% equity interest in Biocomm.

Clinical Cell Culture (C3) Ltd (Listed, ASX: CCE)

Market Position

CCE has developed a unique approach to treating skin loss following burns or traumatic injuries by utilising an area of the patient's own remaining healthy skin. CCE's process involves extracting a particular layer of *young* (undifferentiated) cells that lie at the junction of the skin's two main layers (the epidermis and the dermis).

Where a person has suffered skin loss affecting over 30% of the body, these cells are sent to a GMP accredited CCE laboratory for *culturing* (the skin is incubated with growth factors that encourage the cells to rapidly multiply). Sufficient cells are typically ready for use within about five days, compared to the weeks required by other skin replacement techniques.

The cells are then put into a proprietary CCE solution, inserted into CCE's proprietary spray device and then sprayed as a thin film onto the affected area. Once in place, the cells start differentiating into epidermal cells. Connections grow between these cells, converting the sprayed on suspension into a layer of normal skin.

CCE's second product, CellSpray XP, is used for patients suffering skin loss of between 4% and 30% of the total body surface. The process is similar to CCE's first product, CellSpray, except the five-day culturing process step is missed. The healthy skin sample is sent back to the CCE laboratory, where junction cells are separated out and then put into a suspension without incubation. The junction cells are then returned to the hospital within 48 hours for spraying onto the patient.

CCE's third product, ReCell, is designed for use on patients with small areas of skin loss (less than 4%). This is a common situation in paediatrics, where children often sustain burns on the hands, feet or face. ReCell is a self-contained kit that allows a surgeon to separate the junction cells from the healthy skin sample in the operating room, add these to a suspension, and then immediately spray the new cells on to the affected area.

CCE's IP lies in the knowledge required to separate out the junction cells in the healthy skin sample; produce an optimal culturing solution; incubate to obtain rapid cell multiplication; and combine in a solution that enables delivery by film spray. These elements are considered trade secrets. CCE has also been granted some patents relating to the ReCell kit, with others pending.

CCE's approach to skin resurfacing has major advantages over traditional skin graft techniques, which have limited use when large areas of skin loss are involved. The rapid growth of CCE treated cells provides significant benefits over competing artificial skin products. The earlier skin coverage is restored, the less likelihood of scarring and the shorter the hospitalisation time, leading to substantial cost benefits.

CCE has an established laboratory in Australia, at Royal Perth Hospital. It has just received GMP approval for a European laboratory set up in Belgium, as well as European approval of its ReCell Kit.

Investment

In June 2003, BTC invested A\$2.85M at an issue price of A\$0.105 per share to acquire a 20% stake in CCE. BTC's investment valued the stock at A\$14.25M. BTC was also issued with 2.9M A\$0.29 options in December 2004, which were sold at a profit before expiry.

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Milestones

Since BTC's investment, CCE has achieved the following major milestones.

Date	Milestone
Jul-03	US-based Ventrex Inc appointed principal manufacturer for global ReCell production.
Sep-03	Cambrex Corp appointed preferred European contract manufacturer of CellSpray and CellSpray XP.
Oct-03	ANZ distributor appointed.
Dec-03	European sales network established in UK, Germany, France, Switzerland and Benelux countries.
Jan-04	CellSpray and CellSpray XP approved in Germany and Austria.
Feb-04	CellSpray approved in The Netherlands.
Mar-04	CellSpray XP approved in Switzerland. CCE received ISO certification, a prerequisite for European CE Mark approval.
Jun-04	Italian distributor appointed.
Jul-04	Belgian manufacturing contractor granted GMP approval for CCE products.
Aug-04	CellSpray approved in the UK. A\$13.8M raised from institutions and shareholders at A\$0.42 per share.
Sep-04	Distributors appointed in three Scandinavian and three Asian countries. CellSpray approved for commercial sale in Denmark. Exclusive Japanese distributor for ReCell appointed.
Dec-04	ReCell approved in Japan, triggering an initial stocking order commitment by the Japanese distributor for A\$0.75M of product.
Mar-05	ReCell approval in the EU (CE Mark). Initial order of A\$0.7M for ReCell from European distributors.
Jul-05	First CellSpray XP patient treated in Germany.
Aug-05	A\$10M raised from Australian institutions and sophisticated investors at A\$0.35 per share in order to accelerate plans to launch ReCell in Europe, Japan and, later in CY05, the Americas.

Source: CCE, Aegis Equities Research.

Performance since Investment

Date of equity investment	Aug-03
Equity holding	20% stake (at A\$0.105 per share), since diluted to a 16% stake. (Options sold on market for a profit of A\$0.125M.)
Cost of investment	A\$3.09M
Market price at end July 2005	A\$0.405
Value of investment at end July 2005 ¹	A\$9.34M

¹ As defined by BTC's Investment Policy (including provision for tax).

Source: CCE, Aegis Equities Research.

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Assessment

- CCE's value has increased substantially since BTC invested in the company two years ago, although as at early September 05, the stock was trading 35% less than its April 2004 highs. Since BTC's initial investment, CCE has gained various international product approvals; relocated closer to major markets; developed international sales and manufacturing infrastructure; and received international sales orders.
- There are few listed companies in world markets that focus purely on skin replacement products in the same way as CCE. However, a number of listed companies sell such products as part of a larger portfolio (such as Integra Lifesciences Corp (*Integra*) and Lifecell Corp (*Lifecell*)) and several private companies are also in this space (such as Organogenesis Inc (*Organogenesis*)).
 - US-based Integra sells dermal regeneration templates, which is said to have been a significant contributor to the 50% rise in sales of the implant division to US\$80M in 2004 (Source: Integra, 2004 10K report). Integra's total 2004 sales were US\$230M and its market capitalisation in early September 2005 was around US\$1.0B.
 - Lifecell sells tissue replacements, including skin products. Sales of Lifecell's skin replacement product grew 80% in 2004 to US\$43M. Lifecell's total 2004 sales were US\$59M and the company's market capitalisation in early September 2005 was around US\$760M. (Source: *Lifecell*, 2004 Annual Report)
 - Organogenesis is a private US-based competitor with a number of artificial skin products.
- Judging from the growth occurring at several of CCE's competitors, BTC's investment in CCE appears solid. CCE raised A\$10M in August 2005, resulting in a cash balance of A\$18.2M. This is projected to last six quarters at current burn rates. However, overseas sales are just beginning and this should help delay any need for further cash.

Continence Control Systems International Pty Ltd (Unlisted, *CCS*)

Market Position

CCS is commercialising a novel treatment for severe urinary incontinence that can occur in the elderly, women who have had multiple pregnancies and spinal cord injury patients. The condition forms a large market with ineffective treatment options. CCS's treatment involves wrapping a small flap of muscle around the urethra and controlling the activity of this muscle with a Neuro stimulator controller based on Cochlear technology.

Importantly, the controller already has FDA approval, and there are reimbursement precedents in the US for such Neuro stimulator devices.

CCS's CEO is a former senior Cochlear executive. Large animal trials for CCS's device are essentially completed. CCS commenced human trials of the device during the third quarter of 2005. The company is already planning the development of an improved second-generation device and is in early discussions with North American groups who have expressed interest in being involved.

CCS is filing its own suite of patents relating to its devices, but a licensing agreement is in place relating to the incorporation of technology that originated from the University of Melbourne. In addition, Cochlear's controller technology has been secured under a supply agreement.

In exchange for Cochlear customising and supplying its controller, CCS has granted Cochlear a 5% stake in the company that could increase up to 20%, subject to Cochlear meeting set supply and performance criteria.

Investment

BTC's A\$2M investment secured a 22.5% stake in CCS, valuing the stock at A\$8.7M.

Milestones

Since BTC's investment, CCS has achieved the following major milestones.

Date	Milestone
Jun-04	BTC invests A\$2M for 22.5% stake.
Aug-04	Large animal trial commences.
Dec-04	Awarded A\$0.95M START grant to partially fund preclinical and pilot clinical studies.
1Q CY05	Final data received from the large animal trial, with positive findings.
1Q CY05	Ethics committee approval granted to commence human trials.
Jul-05	Patient recruitment commenced for first human trial. Implants to start during 3Q CY05 and preliminary clinical data to be released before the end of CY05.
Jul-05	Entry into human clinical trials triggered a further drawdown of A\$2M from BTC.

Source: CCS, Aegis Equities Research.

Performance since Investment

Date of equity investment	Jun-04 (A\$2M) and Jul-05 (A\$2M)
Equity holding	28% stake.
Cost of investment	A\$4M

Source: CCS, Aegis Equities Research.

Assessment

- Since BTC made its investment, which was specifically to fund the large animal trial, before human trials, CCS has proceeded according to BTC's expected timetable. Animal trials were successfully completed. Successful completion of the human trial should provide a major lift to the valuation applied in the next funding round.
- Commencement of human trials triggers a second tranche investment by BTC into CCS, providing sufficient funds to complete the impending human trials.
- We agree with CCS' assessment that the potential market for an effective treatment for urinary incontinence is very large, possibly in excess of A\$1B per year.

Pacific Knowledge Systems (Unlisted, *PKS*)

Market Position

PKS owns proprietary *expert system* software capable of *learning* new rules over time. The ever-expanding rule base is used to interpret and comment upon information fed into the system. A key feature of the application is that expert users review at least a sample of the conclusions generated by the system and then teach the system how to correct itself when it makes a mistake. The system is smart enough to recognise conflicts between a newly entered rule and existing rules and handles this situation by asking the expert to give finer guidelines to discriminate between cases appropriate to the new rule, rather than the existing set of rules.

The company has applied its expert system to pathology test results, developing the LabWizard™ product. LabWizard™ automatically adds intelligent patient specific comments to laboratory reports, which results in quicker and more accurate interpretations. In Australia, LabWizard™ is either in use, or being piloted, by the Gribbles Group (*Gribbles*), ACT Pathology, the Institute of Medical and Veterinary Science (*IMVS*) Adelaide, Westmead Hospital, Mater Private Hospital Brisbane and the Prince of Wales Hospital. The system currently generates over half a million patient reports per month and is now being trialled in several countries including the US, Canada and the Netherlands.

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In addition, an undisclosed pharmaceutical company (one of the world's largest) is sponsoring development of a next generation data-handling product for researchers. PKS' expert system technology has broad application to other industries and we would expect to see licensing deals in non-core areas over time.

Investment

In December 2000, BTC invested A\$2M in PKS, acquiring a 10% stake that valued the company at A\$20M. BTC co-invested in PKS with GBS Ventures and a private UK investor. BTC has periodically invested small, additional amounts since then, bringing its total investment in the company to A\$2.2M. As a result of anti-dilution provisions in the original investment agreement, BTC's interest in PKS has ratcheted up over time to reach 26.3%.

Milestones

Since BTC's investment, PKS has achieved the following major milestones.

Date	Milestone
Dec-00	BTC invests A\$2M for 10% initial stake.
Nov-01	Signs IMVS as a client of LabWizard.
FY02	Signs Gribbles and ACT Pathology as clients of LabWizard.
Nov-04	Signs an agreement with STAR Laboratories, the leading pathology laboratory in the Netherlands, to pilot LabWizard.
Feb-05	Wins a tender to supply LabWizard to PathCentre, the West Australian Centre for Pathology and Medical Research.

Source: PKS, Aegis Equities Research.

Performance since Investment

Dates of equity investment	Dec-00 (Plus small additional top-up investments.)
Equity holding	26.3% stake.
Cost of investment	A\$2.32M

Source: PKS, Aegis Equities Research.

Assessment

- BTC has held its investment in PKS for 4.5 years and the company has been slower to realise a return for BTC than we would have expected. In November 2002, BTC indicated an exit from the PKS investment was considered likely in FY04 through a trade sale. Although PKS was said to be approaching cash flow breakeven by the end of FY03, a trade sale has still not eventuated.
- Nevertheless, PKS has made effective use of the last couple of years by increasing client numbers and revenues; developing new product features; establishing several international reference sites; and exploring potential for partners to customise the expert system for new application areas.
- Importantly, every pathology entity that has trialled the system over the test period of several months has been retained as a paying customer.
- Once international sales gain traction, we would expect the company to be well positioned for a trade sale or IPO.

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Phylogica (Listed, ASX: *PYC*)

Market Position

PYC seeks to discover novel drugs composed of naturally occurring protein fragments. PYC owns three libraries of genes, sourced from many different types of bacteria and other species of microorganisms. These genes contain instructions that can cause the microorganisms to produce millions of protein fragments, or *Phylomers*. PYC also owns a proprietary screening process to identify Phylomers capable of blocking interactions between proteins responsible for triggering disease effects.

PYC's approach is unique. It is based on the premise that proteins occurring in microorganisms are made up of highly stable component shapes that have survived millions of years of natural evolution. PYC's Phylomer technology is designed to identify specific component shapes that target and bind to specific disease receptors. The protein fragment responsible for the component shape can be sequenced. Then, it can be manufactured cheaply and reliably using the originating microorganism's protein-making machinery.

PYC has initially focused on three disease areas: asthma, stroke and diabetes. Pre-clinical studies have been carried out on lead candidates for asthma and stroke indications, while discovery work continues to identify lead candidates for use in diabetes. PYC's business model involves out-licensing Phylomer drug candidates to pharmaceutical companies, as well as undertaking contract R&D work for other companies.

Investment

In November 2004, BTC invested A\$2M at an issue price of A\$0.075 per share to acquire 26.67M preference shares in PYC. BTC's investment valued PYC at A\$6.2M. The preference shares converted to ordinary shares on PYC's listing on the ASX in March 2005.

Milestones

Since BTC's investment, PYC has achieved the following major milestones.

Date	Milestone
Nov-04	Awarded Biotechnology Innovation Fund (<i>BIF</i>) grant of A\$0.25M.
Nov-04	BTC signs agreement to invest A\$2M for a 32.4% stake (excluding potential option dilution). The investment was concluded in Jan-05.
Mar-05	IPO completed, successfully raising A\$5M at A\$0.20 per share (a 167% premium to BTC's initial investment). BTC invested another A\$0.5M at A\$0.20 in the IPO, ending with a 27.1% stake.
May-05	Second US patent granted.
Jun-05	Discovers proprietary compounds that protect brain cells in conditions that simulate stroke.

Source: PYC, Aegis Equities Research.

Performance since Investment

Date of equity investment	Jan-05
Equity holding	27.1% A\$2M at A\$0.075 per share, plus A\$0.5M at A\$0.20 per share.
Cost of investment	A\$2.5M
Market price at end July 2005	A\$0.165
Value of investment at end July 2005 ¹	A\$3.99M

¹ As defined by BTC's Investment Policy (including provision for tax).

Source: PYC, Aegis Equities Research.

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Assessment

- PYC's value has increased by more than 50% in the short period since BTC's investment.
- PYC is an early stage company with a platform technology. Clinical trial validation of compounds developed on PYC's platform would significantly reduce the risk associated with this investment.
- PYC's cash balance at the end of June 2005 was A\$5.5M and projected to last in excess of two years, at the prevailing rate of cash burn.

Prima Biomed (Listed, ASX: *PRR*)

Market Position

PRR has the rights to IP relating to unique platform technologies from the Austin Research Institute (*ARI*) in Melbourne. PRR takes an active role in commercialising these technologies. The company has, to date, acquired four major technologies that have been packaged into separate company vehicles, Athron Ltd (*Arthron*), CancerVac Pty Ltd (*CancerVac*), PanVax Ltd (*PanVax*) and OncoMab GmbH (*OncoMab*).

Arthron owns IP over a unique *Fc* receptor implicated in inflammatory pathways that cause diseases like Rheumatoid Arthritis. As it is possible to create multiple unique inhibitors to this receptor, Arthron is seeking to secure licensing deals with several pharmaceutical companies, with each granted the right to develop one or more novel inhibitors. In October 2004, PRR granted AstraZeneca International (NYSE: *ASN*) an option for a non-exclusive licence to develop inhibitors to the *Fc* receptor. In December 2004, PRR granted Zymogenetics Inc (*Zymogenetics*) (NASDAQ: *ZGEN*) a worldwide non-exclusive licence to develop inhibitors to the *Fc* receptor.

CancerVac owns technology relates to a specialised class of white blood cells (dendritic cells), which train the immune system to recognise and combat infections and cancer. In March 2004, CancerVac secured from Biomira Inc (*Biomira*) (NASDAQ: *BIOM*) the right to use a particular protein (mucin 1) in dendritic cell therapy in exchange for 10% equity in CancerVac. (Biomira's stake in CancerVac was converted in Jul-05 into a 1.6% direct interest in PRR). High concentrations of mucin 1 are found on the surface of certain cancer cells, particularly on the breast, ovarian, colon and lung. CancerVac's proprietary technology (which involves attaching a carbohydrate molecule to mucin 1) can strongly enhance the immune response generated against mucin 1-bearing cancer cells. A phase 2a trial in ovarian cancer patients was started in July 2004.

Biomira has the sole option for commercialising CancerVac's carbohydrate-mucin-1 product following this trial, in a deal that includes up to A\$20M in up-front and milestone fees, plus royalties.

PanVax's IP also relates to vaccines against cancer or infections. It is based on a proprietary, nanomolecular sized adjuvant. An adjuvant is something that attaches to an antigen and causes the immune system to mount a stronger response than it would to the antigen alone. Panvax's *DCTag* technology involves tagging various antigens with its adjuvant and then injecting the combined particle into the patient in order to trigger a strong dendritic cell reaction. In response to Panvax's *DCTag* adjuvant, the dendritic cells directly stimulate a response from both arms of the immune system, B cells and T cells. This is a distinct advantage over currently available adjuvants that are typically only able to generate a response from either B cells or T cells. PanVax is preparing a regulatory filing to enable a phase 1 trial to commence.

OncoMab is focused on developing antibodies to a specific antigen, called *cripto-1*, which is present in high concentration on many tumour cells, but minimally present or not present at all on normal cells. Oncomab has succeeded in developing mouse antibodies to *cripto-1*. These have been very effective at preventing injected tumour cells from growing in mice and at eradicating already growing tumours in mice. The company is now collaborating with Medarex Inc (NASDAQ: *MEDX*) to develop fully human antibodies to *cripto-1* that can be trialled against human cancers. Sixty human monoclonal antibodies have so far been identified.

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Investment

BTC's investment of A\$0.9M was part of a broader capital raising (totalling A\$10M) raised through a placement to sophisticated domestic investors and an overseas institution.

Milestones

Since BTC's investment, PRR has achieved the following major milestones.

Date	Milestone
Nov-04	Awarded two BIF grants (totalling A\$0.5M) for Arthron's Fc receptor (rheumatoid arthritis) and Panvax's DCTag (cancer vaccine) technologies.
Nov-04	DCTag-based vaccine prevents injected cancer cells from growing in mice and eradicates existing tumour cells (results published in a scientific journal).
Nov-04	BTC signs agreement to invest A\$0.92M for a 4.9% stake (excluding out-of-the-money options). Investment concluded in Dec-04.
Dec-04	Arthron grants Zymogenetics a worldwide, non-exclusive agreement with first right of refusal to develop biological inhibitors to Arthron's Fc receptor, in exchange for US\$0.35M in option fees over two years. Zymogenetics will pay US\$0.5M if it wishes to secure exclusive rights to the Fc receptor as well as milestone payments (of up to US\$20M), sales bonuses and royalties.
Feb-05	Appoints two experienced executives from large US pharmaceutical firms to the Board.
Apr-05	Acquires additional patents, complementary to Arthron's Fc receptor technology from ARI.
Apr-05	Appoints Dr John Sime to the Board. Dr Sime was previously Director, Research Support and Development at the Imperial College London and, before that, MD of SmithKline Beecham Pharmaceuticals, Australia and NZ.
May-05	European patent granted for CancerVac's mucin-1 product.
Jul-05	Biomira exercises a put option to convert its 10% holding in CancerVac into a 1.62% equity stake in PRR.
Aug-05	PRR and ARI agree to restructure ARI's interests in the four PRR subsidiaries. The proposal is for ARI to exchange its 7-15% holding in the subsidiaries for a 10% holding in PRR itself. The more streamlined structure has advantages for both parties. Commercial collaborations between ARI and PRR will continue.

Source: PRR, Aegis Equities Research.

Performance since Investment

Date of equity investment	Dec-04
Equity holding	4.9% (7.7M shares at A\$0.12, plus 2.57M listed options, expiry Nov-06, strike price of A\$0.20.)
Cost of investment	A\$0.924M
Market price at end July 2005	A\$0.115
Value of investment at end July 2005 ¹	A\$0.90M

¹ As defined by BTC's Investment Policy (including provision for tax).

Source: PRR, Aegis Equities Research.

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Assessment

- BTC's investment in PRR has lost a minor amount of value in the six months or so since the stake was acquired.
- However, PRR has made at least one significant step forward since BTC entered the share register, signing Zymogenetics as a potential licensing partner for Arthron technology. A strengthened Board and additional patent grants suggest PRR's business is moving in a positive direction.
- PRR's technology portfolio is generally early stage, although one investee company has a product candidate in a phase 2 trial. The company had A\$7.5M in cash at the end of the June quarter, projected to last for 1.5 years at the prevailing burn rate. Given that PRR's current market capitalisation is only around A\$16M, we see considerable potential for positive news to lift the value of BTC's investment in PRR over the next two years.

Starpharma (Listed, ASX: *SPL*)

Market Position

SPL specialises in using proprietary nanotechnology techniques to develop novel pharmaceutical agents based on purpose-built dendrimer molecules. To build a dendrimer, scientists select a *core* molecule, attach sequential layers of intermediary molecules to the core and then add an outer surface layer. The intermediary structure gives the dendrimer defined shape and properties. While the surface layer is designed to directly interact with specific target molecules, which may be receptors on the surface of a cell or an antigen.

SPL's patents lie in three key therapeutic areas: protecting the use of dendrimers as antiviral agents; as angiogenic inhibitory compounds (for treating cancer and other conditions); and as antimicrobial and antiparasitic compounds. SPL's lead product is VivaGel, which has successfully completed a phase 1 safety trial.

SPL also holds 33% of private US company, Dendritic NanoTechnologies Ltd (*DNT*). DNT was founded by SPL in 2001 in association with a pioneer of dendrimer technology, Dr Donald Tomalia (who first developed dendrimers while working for the Dow). In January 2005, Dow assigned all of its extensive dendrimer patent estate to DNT, in exchange for a substantial equity stake in DNT. As part of the deal, SPL secured exclusive rights to the collective DNT-Dow IP for use in pharmaceutical applications.

Investment

In March 2004, BTC invested A\$2.5M as part of a broader capital raising (totalling A\$7.5M) raised through a placement to domestic sophisticated investors and an overseas institution.

BTC's A\$2.5M investment secured a 2.7% stake in SPL at an issue price of A\$0.84 per share. BTC's investment valued the stock at A\$93M. BTC was also granted 1.26M March 2005 options in SPL, exercisable at A\$1.25, but these have since expired out-of-the-money.

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Milestones

Since BTC's investment, SPL has achieved the following major milestones.

Date	Milestone
Mar-04	BTC signs agreement to invest A\$2.5M for a 2.7% stake (excluding out-of-the-money options). Investment concluded in Apr-04.
Jun-04	Granted additional US nanotechnology patent.
Sep-04	SPL appointed to lead a consortium to develop a second-generation anti-HIV and anti-STD microbicide, funded by a US\$5.4M grant from a branch of the US National Institutes of Health.
Dec-04	Completes successful phase 1 safety trial of VivaGel, SPL's dendrimer-based vaginal microbicide for preventing HIV infection.
Jan-05	Signs deal with Dow and DNT whereby Dow assigns all its dendrimer patents to DNT in exchange for a significant equity stake in DNT. SPL injects US\$1M into DNT in exchange for exclusive rights to DNT and former Dow IP for use in pharmaceutical applications.
Mar-05	Establishes a second start-up company, Dimerix Bioscience Pty Ltd, to commercialise <i>receptor-coupling</i> technology developed at the Western Australian Institute for Medical Research.
Apr-05	Awarded a A\$5.6M P3 grant over four years to progress commercialisation of novel dendrimer-based pharmaceuticals.
May-05	Investee company, DNT, announces development of a new method for manufacturing dendrimers that is up to ten times as rapid and two to three times less expensive as traditional techniques.

Source: SPL, Aegis Equities Research.

Performance since Investment

Date of equity investment	Mar-04
Equity holding	2.70%
Cost of investment	A\$2.5M
Market price at end July 2005	A\$0.535
Value of investment at end July 2005 ¹	A\$1.44M

¹ As defined by BTC's Investment Policy (including provision for tax).

Source: SPL, Aegis Equities Research.

Assessment

- The value of BTC's investment in SPL has decreased by 48% since the investment was made about fifteen months ago. This came despite several positive developments, including a successful phase 1 trial of VivaGel, and a major strengthening of the position of US investee company, DNT, following the deal with Dow.
- SPL has a market capitalisation of A\$56M and ended the June 2005 quarter with A\$8.2M of cash reserves, projected to last one year at the current cash burn of A\$2.1M per quarter.
- SPL appears undervalued when compared with another Australian company with a nanotechnology platform IP, pSivida Ltd, which has a market capitalisation in excess of A\$180M and cash reserves of A\$18M (projected to last about one year).

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Stem Cell Sciences (Listed, AIM: STEM, SCS)

Market Position

SCS was founded in 1994 to develop and commercialise embryonic stem cell technology for generating unlimited quantities of highly purified stem cells. Embryonic stem cells can be differentiated into a wide variety of different cell types, which can then be used for diagnostic purposes (such as genetic or toxicological screens) or therapeutic applications (such as tissue regeneration and transplantation). SCS now holds an extensive patent estate relating to embryonic stem cells. The company has a presence in Australia, the UK and Japan.

In addition to performing contract work for major pharmaceutical companies, SCS also licenses out its proprietary technologies to enable other companies to grow, differentiate, select and purify embryonic stem cells.

- SCS's selection technology extracts highly pure samples of desired stem cell types from complex multi-cell mixtures.
- The IRES Technology is designed for monitoring gene expression in living cells or animals, without blocking the normal gene functions.
- NS Technology selects out and grows neural stem cells that can be used to produce functional brain cells for research, drug discovery and cell therapies.
- Supertransfection Technology is used to genetically engineer cells. It played a key part in the discovery of a critical gene called *Nanog* that regulates embryonic stem cells.

Investment

BTC invested A\$3M to acquire a 14.6% stake in SCS in July 2003, valuing the company at A\$20.5M.

Milestones

Since BTC's investment, SCS has achieved the following major milestones:

Date	Milestone
Jul-03	New chairman appointed (Dr Michael Dexter, ex-CEO of the Wellcome Trust).
Jul-03	BTC invests A\$3M for 14.6% stake.
Feb-04	Appointed to participate in the EuroStemCell and FunGeneES consortia (granted a total of 20M euros over four years by the EU for stem cell research).
Mar-04	Relocates head office to Edinburgh to be close to lead academic collaborator and major company investors.
Jul-05	SCS raised £6M (approximately A\$14M) at a valuation of £21M (approximately A\$50M) and listed on London's Alternative Investment Market (AIM).

Source: SCS, Aegis Equities Research.

Performance since Investment

Date of equity investment	Jul-03
Equity holding	14.60%
Cost of investment	A\$3M
Value of investment based on capital raised for AIM listing in mid Jul-05	A\$5.6M

Source: SCS, Aegis Equities Research.

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Assessment

- SCS has a strong IP position in embryonic stem cells, as well as internationally respected expertise, as evidenced by SCS's appointment to two European Union funded consortia.
- The capital raised for the AIM listing valued SCS at £21M (or approximately A\$50M). The value of BTC's investment in SCS has therefore increased by nearly 90%, from A\$3M to A\$5.6M.
- Embryonic stem cells are a controversial, but emerging area of research, which is receiving increasing support in the US. In May 2005, House Republican leaders stated they would support a Research Bill permitting cells to be harvested from umbilical cords. However, the current US President's declaration that he would veto any bill calling for the use of embryonic stem cells suggests that companies in this area face several more years of headwinds.
- Nevertheless, there are several major US companies active in embryonic stem cell research, including:
 - Geron Corp (NASDAQ: GERN). It has a market cap of US\$420M, cash of US\$120M and a three-year research spend of US\$87M;
 - ViaCell Inc (NASDAQ: VIAC). Backed by Amgen Inc and Genzyme it has a market cap of US\$350M, cash of US\$13M and a three-year research spend of US\$43M; and
 - StemCells Inc (NASDAQ: STEM). It has a market cap of US\$260M, cash of US\$40M and a three-year research spend of US\$25M.

XRT (Unlisted)

Market Position

XRT owns CSIRO developed proprietary imaging technology that allows ultra-high resolutions of objects and living tissues on a nanotechnology scale (50 nanometres). XRT's technology exploits the physical properties of so-called *phase contrast* and it can be incorporated into desktop sized x-ray machines. This provides a far more compact and much less expensive solution to obtaining resolutions of this scale in contrast to existing technologies (e.g. the synchrotron).

XRT has developed two products that highlight its technology.

- The X-ray ultra-microscope (*XuM*) is used to provide fine internal detail of structural materials, devices and products. Hairline cracks or consistency defects can be readily identified and even rendered in 3D views.
- The X-AMIN product has been specifically designed for imaging small animals used for drug and genetic research, especially in relation to skeletal changes, by pharmaceutical and genomics companies.

XRT has in the past done work with or sold units to global multi-national organisations from the semi-conductor; aerospace; materials science; and biomedical sectors, among others.

Investment

Since March 2001, BTC has invested a total of A\$5.625M in several tranches (via ordinary shares and convertible notes). BTC's stake in XRT of 59.6% was diluted down to 47.9% in the Aug-05 capital raising.

Milestones

Since BTC's investment, XRT has achieved the following major milestones.

Date	Milestone
Mar-01	BTC invests A\$4M for 19.9% stake.
Nov-01	XRT achieves maiden sale of XuM.
Apr-02	Professor Jeremy Davis appointed to the Board.
Aug-02	Signs an agreement with US-based EDAX Inc, a unit of AMETEK Inc, to market, sell and distribute the XuM globally.
Mar-05	Signs a technology development and licence agreement with an undisclosed global instrumentation leader, planning to develop new 3D metrology tools based on XRT technology.
Jun-05	Signs a licensing agreement with US-based Gatan Inc (<i>Gatan</i>), a world leader in electron microscope technology, granting Gatan the right to incorporate XRT technology into electron microscopes in exchange for an up-front fee and royalties.
Aug-05	Raises £1.615M from UK investors, including a leading institutional investor, at a pre-money valuation of £7.1M.

Source: XRT, Aegis Equities Research.

Performance since Investment

Date of equity investment	Mar-01
Equity holding	47.9%
Cost of investment	A\$5.625M (A mixture of ordinary shares and convertible notes.)
Value of investment based on capital raising	A\$10M

Source: XRT, Aegis Equities Research.

Assessment

- XRT has a unique platform technology and it has undertaken project collaborations with some of the world's leading blue chip companies and organisations (including, Intel Corp, the US National Aeronautics and Space Administration (NASA) and British Aerospace plc).
- The June 2005 licensing agreement with the leading global electron microscope company, Gatan, further validates the technology.
- The August 2005 capital raising, subscribed to by sophisticated UK investors, corroborates XRT's commercial prospects and independently confirms a near doubling of the value of BTC's investment in this portfolio asset.

Exited Investments

Since inception, BTC has disposed of two investments, Xenome Ltd (*Xenome*) and Proteome Systems Ltd (*Proteome*). BTC also disposed of its C3 options, ahead of their expiry. A brief summary of these past investments is provided here.

Xenome

Market Position

Xenome uses expertise in genomics, proteins and pharmacology to develop novel peptide drugs based on the venoms of indigenous Australian animals. Venoms are often highly effective at immobilising or numbing their targets by affecting the nervous system. Venom derivatives have been researched by various entities as potential treatments for cancer, hypertension and pain relief. Xenome's lead drug candidate, a painkiller suitable for use as a morphine replacement, started clinical trials during 2004.

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Investment

BTC invested A\$3.5M in Xenome in November 2001, taking a 27.3% stake in the company.

Exit

In November 2004, BTC sold its stake in Xenome to the Queensland Investment Corporation (QIC) for A\$3.9M, realising a profit of A\$0.4M on this investment.

This sale was in conjunction with the sale by the founders of Xenome.

Proteome Systems (ASX: *PXL*)

Market Position

Proteome has developed leading edge proteomics systems used for discovering, sequencing and characterising proteins as well as analysing interactions between proteins. Proteome's business is based on selling proteomics instrumentation to pharmaceutical and biotechnology companies and research institutions, as well as carrying out contract work on behalf of third parties. In addition, Proteome conducts its own drug discovery and development program using its proprietary platform technology.

Investment

Proteome was BTC's earliest investment. A\$3.0M was invested in the company in September 2000, with an additional A\$2.4M investment via the exercise of options in 2002.

Exit

BTC exited its investment during March and April 2005, realising total sale proceeds of A\$0.45M. The large loss made on the investment in Proteome is very surprising given that Proteome also managed to attract other well-respected institutions with special experience in the biotechnology sector onto its register, including QIC and Wilson Asset Management.

The disappointing outcome of BTC's proteome investment highlights the reality that private equity portfolios typically will have several investments in which most or all of the invested funds are lost; several others on which the fund roughly breaks even; and a small number in which the fund will seek to generate stellar returns that more than compensate for the disappointments.

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