



# COLLTECH

AUSTRALIA LTD | ANNUAL REPORT

2004

# CORPORATE DIRECTORY

## ***Directors***

Mr Michael Blakiston  
CHAIRMAN

Dr Anna Kluczewska  
NON-EXECUTIVE DIRECTOR

Dr John Snowden  
NON-EXECUTIVE DIRECTOR

## ***Company Secretary***

Mathew Whyte  
CHIEF FINANCIAL OFFICER

## ***Patent Attorney***

Griffith Hack  
level 6 256  
Adelaide Terrace  
Perth WA 6000

## ***Principal Registered Office***

1st Floor  
Churchill Court  
335 Hay Street  
SUBIACO WA 6008

Tel: (+618) 9388 7600  
Fax: (+618) 9388 7660

## ***Share Registry***

Computershare Investor  
Services Pty Ltd  
Level 2 Reserve Bank  
Building 45 St Georges  
Terrace PERTH WA 6000

Tel: (+618) 9323 2000  
Fax: (+618) 9323 2033

## ***Bankers***

National Australia Bank  
Perth Central BBC  
1/50 St Georges Terrace  
PERTH WA 6000

HSBC Bank Australia Ltd  
188-190 St Georges Terrace  
PERTH WA 6000

## ***Auditors***

HLB Mann Judd  
15 Rheola Street  
WEST PERTH WA 6005

## ***Solicitor to the Company***

Blakiston & Crabb  
1202 Hay Street  
WEST PERTH WA 6005

## ***Internet Website***

[www.colltech.com.au](http://www.colltech.com.au)



## ***Annual General Meeting***

The board has convened the annual general meeting to be held at 11am(WST) on **19 November 2004** at the **Stirling Room Parmelia Hilton Perth**, Mill Street, Perth Western Australia

# CONTENTS

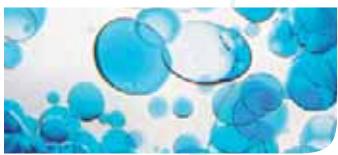
---



**01**

Chairman's Report ..... *page 02*

---



**02**

Review of Operations ..... *page 04*

---



**03**

Annual Financial Report ..... *page 09*

---

**It is my pleasure to report on the substantial progress achieved by your Company since its successful listing in February of this year. In this short time CollTech has made tangible strides in the construction of its GMP designed facility at Collie WA; entered into a long-term supply contract for a key raw material, and initiated the sales and marketing program.**

By the time you read this report the superstructure for the collagen extraction plant at Collie will be well underway. It is our expectation that the facility will be commissioned and commercially operating during the first quarter of 2005. The Company has gone to great lengths in the design and planning of this facility to ensure it has the capacity to meet GMP and ISO 9001 accreditation and is completed on time and on budget. We are confident in achieving all of these goals.

In parallel to planning and construction activities, the technical team have sourced and committed to the long term supply of all other key process consumables. Of particular importance was the execution of the "Pelt Supply Agreement" which secures CollTech's needs for sheepskin pelts from a US and EU accredited abattoir for the first two years. CollTech with its site lease of 20 years, building costed and underway with supplies secured, has complete control of its production and cost model.

On the sales front CollTech has appointed an agent for north east Asia, who continues to introduce the Company and product to the large users of food and cosmetic grade Collagen in this region. Early promising responses have been received from potential customers in Taiwan and China, who are awaiting samples from the first commissioning run of the Collie extraction facility. We have been encouraged with the level of response, particularly in respect to the higher value added cosmetic grade, and look to negotiating long term supply agreements with these and other companies targeted in this region.

On a broader sales front, this year CollTech participated in both the World Bio- Materials conference in Sydney and BIO 2004 in San Francisco, gaining a strong level of interest for its product suite. Early discussions are continuing with potential clients in Europe and the US.

As this, CollTech's first year as a public company draws to a close with the scheduled completion of the production infrastructure and sales initiatives in place and expanding, we look to 2005 as a year of growing opportunity. Our first priority will be to ramp up production by driving planned equipment productivity increases, while at the same time widening the sales penetration into Europe and the US.

Initially CollTech will produce research grade collagen for the expanding world biotech research market which will lead to the further development of our technology and skill sets to meet the challenges of the growing medical grade collagen market.

Looking forward to product development, your Company will commence the development of medical grade collagen product. This market enjoys much higher margins, but is subject to higher regulatory hurdles at the production level and so, until the Company completes its development work it cannot determine when such production can commence.

I would like to take this opportunity to thank my fellow directors and hardworking executive team who have made considerable contribution to the progress of the Company.

We remain committed to enhancing shareholder benefits and look forward to the future with confidence.



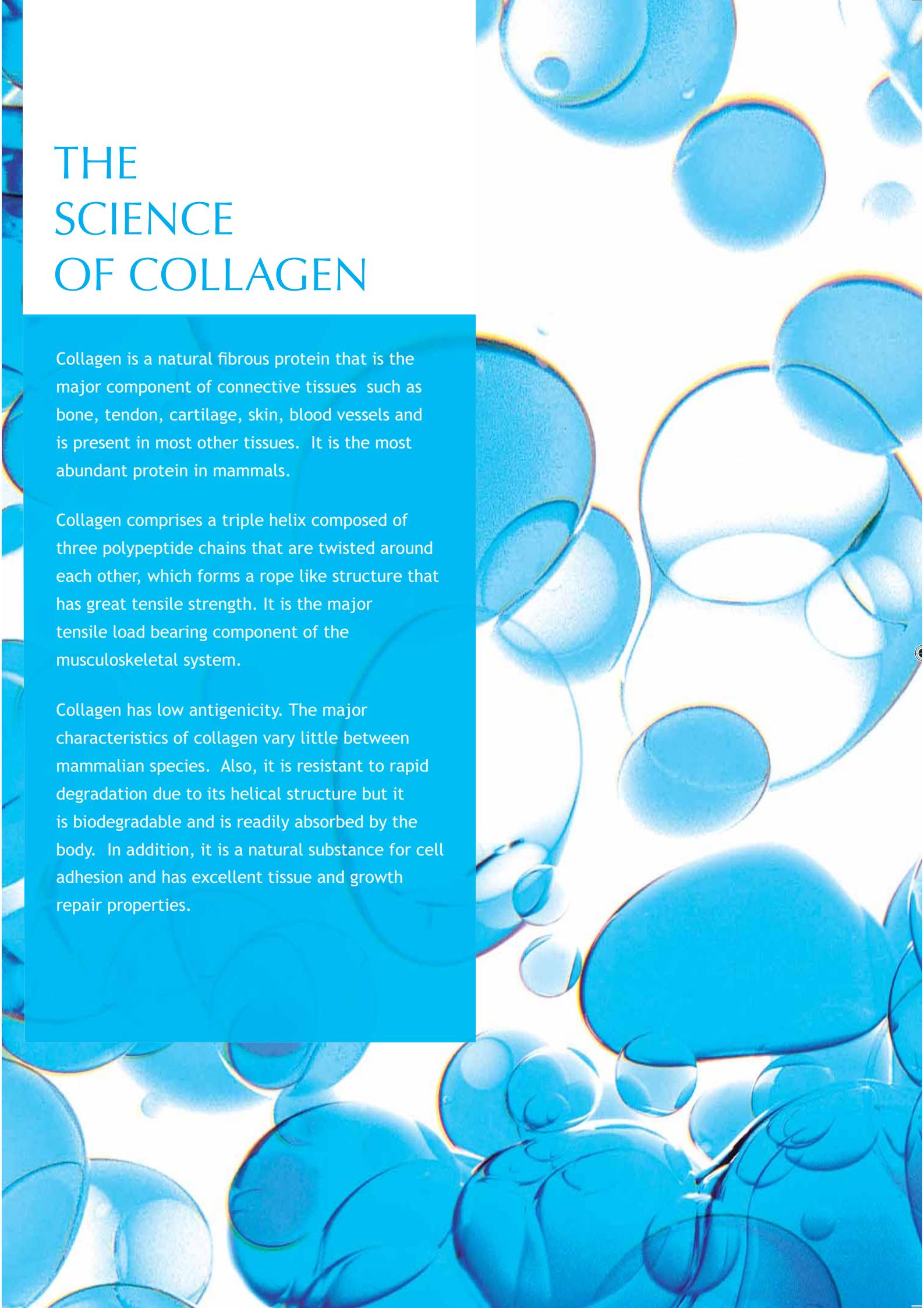
Michael Blakiston  
CHAIRMAN

# THE SCIENCE OF COLLAGEN

Collagen is a natural fibrous protein that is the major component of connective tissues such as bone, tendon, cartilage, skin, blood vessels and is present in most other tissues. It is the most abundant protein in mammals.

Collagen comprises a triple helix composed of three polypeptide chains that are twisted around each other, which forms a rope like structure that has great tensile strength. It is the major tensile load bearing component of the musculoskeletal system.

Collagen has low antigenicity. The major characteristics of collagen vary little between mammalian species. Also, it is resistant to rapid degradation due to its helical structure but it is biodegradable and is readily absorbed by the body. In addition, it is a natural substance for cell adhesion and has excellent tissue and growth repair properties.



**Colltech is pleased to present its review of operations for the past financial year. The Company has made significant progress in its plan to be producing ovine sourced collagen for sales by the first quarter of calendar year 2005.**

## FY 2004 FINANCIAL HIGHLIGHTS

CollTech reported a net loss for the financial year ended 30 June 2004 attributable to members of \$948,264 (FY 2003:\$140,372). During the period the company's revenue of \$218,153 was sourced from a Biotech Innovation Grant (\$105,000) and interest on funds on deposit from its \$5 million IPO capital raising completed in February 2004 (\$113,153). Expenses from ordinary activities of \$1,202,741 were incurred mainly on consulting and professional services of \$398,336, employee payments of \$154,024 and a non cash expense of \$449,998 incurred on the write down of its investment in Jessains Pty Ltd.

As at 30 June 2004 CollTech had a cash balance of \$4,376,202. Net cash was increased by \$3,980,853 during the year with the main sources and applications of funds being as follows: \$144,907 being invested in ordering plant & equipment for use in its collagen extraction facility, \$773,932 being applied to payments to suppliers and employees and cash receipts of \$4,637,775 (net of costs of issue) from its IPO raising, \$113,153 from interest and an R&D tax offset for FY 2003 of \$36,324. Since the end of June CollTech has committed to a lump sum construction contract for its collagen extraction plant in Collie and continues to extend purchase orders to secure the remaining plant & equipment for year end commissioning.

In August the Company appointed National Australia Bank (NAB) as its primary banker. Colltech has accepted a proposal from NAB to enter into a \$950,000 hire purchase facility with the NAB which will be used to assist in the funding of plant and equipment required for the plant.

## OPERATIONAL HIGHLIGHTS

The Company achieved many operational milestones since its listing on the ASX in late February 2004. With the significant developments since listing Colltech now has a high level of confidence it will complete its ovine collagen extraction plant on time and below budget.

### OPERATIONAL HIGHLIGHTS INCLUDED:

#### Appointment of sales agent for Northern Asia

CollTech entered into a Sales Agency Agreement for the marketing and sale of its high grade collagen products into the cosmetic and food industries of Northern Asia. Under the agreement CollTech has licensed the use of its name to the newly incorporated CollTech Asia Limited ("CollTech Asia"). CollTech Asia will be owned and operated by companies associated with Mr David Chiu. Mr Chiu is the executive director of the Australian Taiwan Business Association. The Sales Agency provides CollTech with an immediate market presence in Asia, and is likely to result in orders for at least one third of collagen produced in the first year of operations.

#### Lease and services agreements with Western Power Corporation

CollTech entered into commercial lease and services agreements with the Western Australian government power utility, Western Power Corporation. The agreements effectively provide CollTech with a 20-year leasehold, with renewal provisions, over 3 hectares of land adjacent to the Collie Power Station on which it is constructing its purpose built collagen extraction plant. The site is in close proximity to other raw materials supplies and global export facilities. The agreements also provide CollTech access to Western Power's medical grade water purification generation infrastructure, which is a key factor required in the production of CollTech's cosmetic and medical grade, high margin collagen products.

### Award of building contract and commencement of construction

CollTech awarded a lump sum design and construct building contract to Perth based Keytown Constructions Pty Ltd. Keytown, under the supervision of CollTech's project manager Kellogg Brown and Root, has commenced site works on the construction of the Company's collagen extraction and purification facility in Collie, two-hours southwest of Perth, Western Australia. Practical completion of the facility is scheduled for late December 2004, enabling CollTech to complete its pre commissioning program prior to commencing production for the first anticipated sales of collagen in early 2005.

Colltech has appointed Mr Lorin Sole as its Operations Manager for the plant. Mr Sole has considerable international experience in the commissioning and operation of similar Good Manufacturing Practice (GMP) and ISO9001 accredited facilities in the dairy industry.

### Sheepskin (Pelt) supply contract

Since the end of the financial year CollTech has signed an agreement with Fletcher International Exports for the supply of sheep pelts, being a raw material for its ovine collagen extraction process. Fletcher's have two abattoirs; one in Dubbo, NSW and the other near Albany in WA. Together they are the largest sheep meat processor in Australia with a capacity of more than 90,000 sheep and lambs per week. During its tender negotiations for plant construction the Company identified an opportunity to effectively outsource the supply of treated pelt feedstock from Fletchers plant in Albany, which is approximately 2 hours south of its Collie plant. The sheepskin pelt supply arrangement will reduce the Company's capital expenditure on the plant's construction and equipment requirements and make available immediate feedstock to speed up the commissioning process.





### Intellectual property

In a recent important development CollTech has received a clear International Preliminary Examination (IPE) Report on its International Patent Application No PCT/AU 2003/000606 entitled COLLAGEN AND METHOD OF PRODUCING SAME.

The report issued by the Australian Patent Office, acting as the International Preliminary Examining Authority confirms that the inventive claims satisfy the requirements of the PCT with regards to novelty, inventive step and industrial applicability. While not binding on the patent offices of PCT member countries, the issuance of a clear IPE report may facilitate the rapid grant of the Patent in countries the Company chooses to enter into with National Phase filing. The Company will enter into the national phase filing in selected countries during the first half of FY 2005.

### SALES AND MARKETING

---

With the operational developments outlined above now put in place and proceeding, CollTech's Board and Management have a clear focus on the sales and marketing of its collagen products.

### OVINE SOURCE COLLAGEN PRODUCTS

---

The initial product categories for sale and delivery commencing early in calendar year 2005 will be:

#### Insoluble collagen (acid swelled) food and neutraceuticals

CollTech will produce up to 200 grams per kilogram of sheepskin pelt processed of acid swelled insoluble collagen dispersed at about 10% in aqueous solution. This product can be readily fed into the sausage casing market and into the general food industry as a bulking and binding agent.

#### Acid soluble collagen (cosmetics and cosmeceutical)

CollTech will produce up to 35 grams of acid soluble collagen per kilogram of ovine pelt processed. This volume extracted at the Collie facility will be provided under ISO 9001 QA accreditation and from a GMP certified facility. It will therefore have the assured

quality characteristics of food grade and cosmetic grade manufactured product. This collagen will be supplied in either 1% acid solubilized aqueous solution or out of solution in 8% dispersed gel. Either solubilized or as a gel, this product forms the basis of many of the higher value added cosmetics and cosmeceutical skin care products.

#### Acid soluble collagen (research grade)

CollTech's cosmetic grade acid soluble collagen in solution (1%) extracted at the Collie facility with ISO 9001 accreditation and GMP certification, will be further refined to remove residual salt and pepsin debris. The product will then be available in a highly pure soluble form in small quantities for the research market/industry at relatively higher value than for cosmetic production.

#### KEY SALES AND MARKETING OBJECTIVES/TARGETS

#### NORTHERN ASIA MARKET PENETRATION

CollTech Australia will be focused on completing ongoing sales initiatives in Asia, with its recently appointed Sales Agent. Logistic and financial arrangements are being negotiated around long term supply agreements prior to the facility's completion in preparation of production availability in early in calendar year 2005.

#### Collaboration

Currently the medical device and cosmeceutical industries predominantly use bovine (cow) collagen and to a lesser extent porcine (pig). The large global cosmetic and medical companies maintain active research and development programmes to evolve existing products and create new and novel products. Areas such as skin care, advanced wound care, and unique haemostatic devices that are rich in collagen use, stand out as areas of research.

CollTech will establish from a unique accredited supply base, a willingness to enter into collaborative research with these companies to investigate the replacement of bovine collagen with CollTech's ovine collagen, stressing

both safety and quality issues. Furthermore CollTech will look at leveraging its unique collagen product with its processing know-how, to collaborate in the creation of unique and novel medical and cosmeceutical products. This activity will be pursued in parallel with all other activities and will focus on both increasing CollTech's IP portfolio and collagen sales opportunities.

#### CONCLUSION

CollTech in its first half year since listing has initiated, planned, obtained approvals and commenced construction of its collagen production facilities. The management and financial resources are in place to complete, commission and operate the facilities within CollTech's maiden year.

All focus from now onwards is on the marketing and sale of CollTech's two initial market ready products - food grade insoluble and cosmetic grade soluble collagen. The immediate markets for these products have been identified and engaged.

Collaboration will be a key focus going forward in 2005 after GMP and ISO accreditation has been obtained for the production facility. CollTech will leverage its research grade collagen production into collaborations with medical device end product manufacturers. This will serve as an entrée into the much larger medical grade collagen market.

Michael Pixley

CHIEF EXECUTIVE OFFICER



# Annual Financial Report for the Financial Year ended 30 June 2004

# 03 ANNUAL FINANCIAL REPORT

---

## INDEX

	Page No.
Directors' Report.....	11
Corporate Governance Statement.....	16
Statement of Financial Performance .....	22
Statement of Financial Position .....	23
Statement of Cash Flows .....	24
Notes to the Financial Statements .....	25
Directors' Declaration.....	47
Independent Audit Report .....	48
Additional Stock Exchange Information .....	49

## DIRECTORS' REPORT

Your directors present their report on the company for the financial year ended 30 June 2004.

### *Directors*

The names, qualifications and experience of directors in office during the financial year and until the date of this report are as follows:

**Mr Michael Blakiston,**  
*B.Juris LL.B.*

**Position:** Chairman – Non-Executive (appointed 27 November 2003)

**Experience:** Mr Blakiston is a partner of law firm Blakiston & Crabb. He is a director of numerous public companies including Australian Development Capital Ltd, Rosso Resources Ltd, Platinum Australia Ltd, Vulcan Resources Ltd, Tony Barlow Australia Ltd & Rox Resources Ltd.

**Dr Anna Kluczewska,**  
*BDSc*

**Position:** Director – Non-Executive (appointed 6 August 2003)

**Experience:** Dr Kluczewska is a qualified dental surgeon with post graduate studies in Australia and further certification and training in USA. She was formerly a Global Product Manager for Baxter BioSurgery, a division of Baxter Healthcare Inc and was recently appointed Managing Director of AION Diagnostics Ltd an operating subsidiary of pSivida Ltd.

**Dr John Snowden,**  
*BSc(Hons), PhD*

**Position:** Director – Non-Executive (appointed 17 December 2002)

**Experience:** Dr Snowden is CollTech's head scientist and inventor of CollTech's novel collagen extraction process. After graduating as a Ph.D (Biochemistry) he completed a post doctoral fellowship at Imperial College, University London. He then worked on medical aspects of collagen as a research fellow at Harvard University and Massachusetts General Hospital, Boston USA and on returning to Australia at John Curtin School of Medical Research at A.N.U. Canberra.

### *Past directors who held office during the year:*

**Mr Michael Pixley**

Director & Chief Executive Officer (resigned as director 27 November 2003)

**Dr David Kennedy**

Director & Chief Operating Officer (resigned as director 6 August 2003)

**Mrs Nadine Donovan**

Director & Company Secretary (resigned as director 4 November 2003  
and as company secretary 20 February 2004)

**Mr Anthony Kain**

Director - Non-Executive (resigned 24 July 2003)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## DIRECTORS' REPORT (cont'd)

### *Company Secretary*

**Mr Mathew Whyte**

CPA FCIS

**Position:** Company Secretary/ Chief Financial Officer

(appointed 5 January 2004)

**Experience:** Mr Whyte is a CPA and a Fellow of the Institute of Company Secretaries and has extensive experience in the management and corporate affairs of public listed companies.

### *Principal Activities*

The Company's business involves the process of extracting and purifying collagen from animal sources in Australia for sale. There were no significant changes in the nature of the Company's principal activities during the financial year.

### *Operating Results*

The net loss for the financial year after income tax benefit attributable to members of the parent entity was \$948,264.

### *Dividends Paid or Recommended*

No dividend was paid or declared for the financial year.

### *Review of Operations*

The Company achieved many operational milestones since its listing on the ASX in late February 2004, including:

- i. Appointment of sales agent for Northern Asia;
- ii. Entering into commercial lease and services agreements with the Western Australian government power utility, Western Power Corporation; and
- iii. Award of a lump sum design and construct building contract to Perth based Keytown Constructions Pty Ltd. Keytown, under the supervision of CollTech's project manager Kellogg Brown and Root, has commenced site works on the construction of the Company's collagen extraction and purification facility in Collie, two-hours southwest of Perth, Western Australia.

With the operational developments outlined above now put in place and proceeding, CollTech's Board and Management will focus on the sales and marketing of its initial ovine sourced collagen products being :

- i. Acid swelled insoluble collagen for food and neutraceuticals;
- ii. Acid soluble collagen for cosmetics and cosmeceutical; and
- iii. Acid soluble collagen for research grade.

## DIRECTORS' REPORT (cont'd)

### *Significant Changes in State of Affairs*

The following significant changes in the state of affairs of the Company occurred during the financial year:

- i. Pursuant to its Prospectus dated 5 December 2003 the company issued 25 million ordinary shares of 20 cents each to raise a total of \$5million (before the costs of the issue) and for each four shares subscribed, issued one free new option having an exercise price of 25 cents each and an expiry date of 30 June 2005.
- ii. On 13 February 2004 CollTech Australia Limited was admitted to the official list of the Australian Stock Exchange and quotation of its securities commenced.

Changes in controlled entities and divisions:

- i. As disclosed in the Company's Prospectus the company acquired all of the issued capital of Jessains Pty Ltd in November 2003 through the issue of 10 million shares at a fair value of 4.5 cents per share. The Company sought deregistration of Jessains Pty Ltd effective 30 June 2004 and the investment in Jessains Pty Ltd of \$449,998 was written off.

### *After Balance Date Events*

Since the end of the financial year CollTech has entered into an agreement with Fletcher International Exports for the supply of sheep pelts, being a raw material for its ovine collagen extraction process. CollTech has also appointed National Australia Bank (NAB) as its primary banker. CollTech has accepted a proposal from NAB to enter into a \$950,000 hire purchase facility with the NAB which will be used to assist in the funding of plant and equipment required for its collagen extraction plant under construction in Collie WA. Except for the above developments, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

### *Future Developments*

The likely developments in the operations of the Company and the expected results of those operations in future financial years are as follows:

- i. Practical completion of the facility is scheduled for late December 2004. This will enable CollTech to complete its pre commissioning program prior to commencing production for the first anticipated sales of collagen in early 2005.
- ii. Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

## DIRECTORS' REPORT (cont'd)

### *Environmental Issues*

During the financial year the Company applied for and received works approval number 3879 from the Western Australian Department of Environmental Protection issued under Environmental Protection Act 1986. The works approval was issued to construct its collagen extraction and purification plant (Plant Facility) on Lot 5 Boys Home Road, Collie WA. The works approval comprises the Plant; pollution (odour) abatement equipment; transport access and parking facilities; infrastructure linkage with Western Power's Collie Power Station for water and power; and wastewater treatment and storage and infrastructure to allow discharge into the Collie Power Station's approved ocean outfall pipeline. Upon completion of construction of the Plant Facility CollTech will apply for and obtain Western Australian Department of Environment Operating Licence in accordance with Environmental Protection Act 1986. The Company's future operations will be conducted under the guidelines of that Licence.

Since the end of the financial year the Company has commissioned and received an independent baseline environmental assessment of the leased Plant Facility site at Lot 5 Boys Home Road, Collie WA. Based on the results obtained from the baseline investigation conducted at the site the independent report concluded that the site is not likely to be contaminated in a manner that represents a risk to human health or the environment.

Other than mentioned above, during and since the end of the financial year, the directors are not aware of any particular or significant environmental issues which have been raised in relation to the Company's operations.

### *Meetings of Directors*

During the financial year, 13 meetings of directors (including committees of directors) were held. As disclosed in the Corporate Governance Statement, a separate Audit and Nomination Committee has not been formed. The role of the Audit and Nomination Committee is carried out by the full Board. Attendances by each director during the year were.

	Number eligible To attend	Number Attended
Mr Michael Blakiston	10	10
Dr Anna Kluczewska	13	8
Dr John Snowden	13	12
Past directors who held office during the year:		
Mr Michael Pixley	4	4
Dr David Kennedy	1	1
Mrs Nadine Donovan	3	3
Mr Anthony Kain	1	1

### *Remuneration of Directors and Executives*

Disclosures relating to directors' and executives' remuneration have been included in Note 5 to the financial statements.

### *Directors' Shareholdings and Executives Shareholdings*

Disclosures relating to directors' and executives' shareholdings have been included in Note 5 to the financial statements.

## DIRECTORS' REPORT (cont'd)

### *Indemnifying Directors and Officers*

The Company has entered into Deeds of Indemnity, Access and Insurance for Mr M Blakiston, Dr A Kluczewska and Dr J Snowden. Pursuant to the terms of the deeds the Company provides an indemnity for each of the above named directors for liabilities and legal expenses incurred as a director to the maximum extent permissible at law.

The Company entered into a Directors' and Officers' Liability Insurance Policy. This policy insures all directors and officers of the Company against certain liabilities incurred by them as directors and officers of the Company.

The Company paid a total insurance premium of \$13,564 and stamp duty and GST of \$2,848 for the contract of insurance referred to above.

### *Options*

Details of Options that were granted over unissued shares during the financial year by the company and which remain outstanding at balance date are disclosed at Note 15(c) to the financial statements.

### *Corporate Governance*

In recognising the need for the highest standards of corporate behavior and accountability, the directors of CollTech support and adhere to the principles of corporate governance. The Company's corporate governance statement is contained in the following section of this annual report.

### *Proceedings on Behalf of Company*

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors.



**Mr Michael Blakiston**  
Director

Dated this 24th day of September 2004.

## CORPORATE GOVERNANCE STATEMENT

### *ANNUAL REPORT DISCLOSURE ON CORPORATE GOVERNANCE*

---

#### *INTRODUCTION*

---

CollTech Australia Limited ("CollTech" or "Company") has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised below.

The following additional information about the Company's corporate governance practices is set out on the Company's website at [www.colltech.com.au](http://www.colltech.com.au) :

- i. Corporate governance disclosures and explanations;
- ii. Statement of Board and Management Functions;
- iii. Nomination Committee Charter;
- iv. Policy and procedure for selection and appointment of new directors;
- v. Summary of code of conduct for directors and key executives;
- vi. Summary of policy on securities trading;
- vii. Audit Committee Charter;
- viii. Policy and procedure for selection of external auditor and rotation of audit engagement partners;
- ix. Summary of policy and procedure for compliance with continuous disclosure requirements;
- x. Summary of arrangements regarding communication with and participation of shareholders;
- xi. Summary of Company's risk management policy and internal compliance and control system;
- xii. Process for performance evaluation of the Board, Board committees, individual directors and key executives;
- xiii. Remuneration Committee Charter; and
- xiv. Corporate Code of Conduct.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### *EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS*

From 1 July 2003 to the date of this report ("Reporting Period") the Company has complied with each of the Ten Essential Corporate Governance Principles<sup>1</sup> and the corresponding Best Practice Recommendations<sup>2</sup> as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below.

Principle Ref	Recommendation Ref	Notification of Departure	Explanation for Departure
1	1.1	The functions of the Board were not formally disclosed prior to the Board adopting its Statement of Board and Management Functions on 2 June 2004	Although they were not in writing, separate functions of the Board and management existed and were practised prior to the formal adoption of the Statement of Board and Management Functions.
2	2.4	A separate Nomination Committee has not been formed.	The role of the Nomination Committee is carried out by the Full Board. The Board considers that given its size, efficiencies or other benefits would be gained by establishing a separate Nomination Committee
3	3.2	A formal policy concerning trading in Company securities was not disclosed prior to 2 June 2004.	Although there was no formal policy, a policy did exist and was practised whereby statutory provisions of the Corporations Act dealing with insider trading were strictly complied with. A written policy was adopted in the last quarter of the Reporting Period and the Company is therefore now in compliance.
3	3.1	Prior to 2 June 2004 there was no written code of conduct.	Although there was no written policy the board considered the business practices and ethics exercised by individual Board members and key executives were of the highest standards. On 2 June 2004 the Company certified and disclosed its practices as a code of conduct.
4	4.2; 4.3	A separate Audit Committee has not been formed.	The role of the Audit Committee is carried out by the full Board. The Board considers that given its size, and the fact that no members of the Board hold executive positions in the Company, no efficiencies or other benefits would be gained by establishing a separate Audit Committee.

1. A copy of the Ten Essential Corporate Governance Principles are set out on the Company's website under the Section entitled "Corporate Governance."

2. A copy of the Best Practice Recommendations are set out on the Company's website under the section entitled "Corporate Governance."

## CORPORATE GOVERNANCE STATEMENT (cont'd)

Principle Ref	Recommendation Ref	Notification of Departure	Explanation for Departure
5	5.1	There were no written policies and procedures regarding ASX Listing Rules and disclosure requirements prior to 2 June 2004.	Although there were no written policies or procedures, the Company complied with all disclosure requirements. Policies and procedures were documented and adopted in the last quarter of the Reporting Period. The Company is therefore now in compliance.
6	6.1	The Company's shareholders' communication strategy was designed and disclosed in a formal way on 2 June 2004.	The Company has a positive strategy to communicate with shareholders and actively promote shareholder involvement in the Company. It aims to continue to increase and improve the information available to shareholders on its website. The Company's formal strategy was documented and disclosed in the last quarter of the Reporting Period. The Company is therefore now in compliance.
7	7.1	A formal risk management policy was not disclosed until 2 June 2004.	Although the policy was not disclosed, the chief executive officer was responsible for monitoring risks and reporting to the Board on risk management on a monthly basis. The major risks facing the Company were identified and disclosed in the Company's listing prospectus.
8	8.1	The process for evaluation of the Board, individual directors and key executives was not disclosed until the last quarter of the Reporting Period.	The process was not disclosed, however a review of the functioning of the Board in general did occur by way of an informal review by the Chairman prior to the end of the Reporting Period.
9	9.1	The Company's remuneration policy was not disclosed until 2 June 2004.	Although the policy was not disclosed it did exist and was applied during the Reporting Period.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

Principle Ref	Recommendation Ref	Notification of Departure	Explanation for Departure
9	9.2	There was no separate Remuneration Committee.	The functions of the Remuneration Committee were undertaken informally by Mr Blakiston (chairman) in consultation with the chief executive officer Mr Pixley, with final approval of actions being granted by the Board. Neither Mr Blakiston nor Mr Pixley participated in discussions regarding their own remuneration. From 2 June 2004 the full Board carried out the functions of the Remuneration Committee. All matters of remuneration will continue to be determined by the Board in accordance with Corporations Act requirements, especially in respect of related party transactions. That is, no directors participate in any deliberation regarding his or her own remuneration or related issues.
10	10.1	A code of conduct was adopted on 2 June 2004.	Although there was no code of conduct documented or disclosed the Board considered its business practices, as led by the example of the Board and key executives, were the equivalent of a code of conduct, which has now been documented, approved and disclosed.

### *SKILLS, EXPERIENCE, EXPERTISE AND TERM OF OFFICE OF EACH DIRECTOR*

A profile of each director containing the applicable information is set out in the Directors' Report.

# 03 ANNUAL FINANCIAL REPORT

---

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### *IDENTIFICATION OF INDEPENDENT DIRECTORS*

---

The independent directors of the Company are Michael Blakiston and Anna Kluczewska.

Mr Blakiston is a principal of the firm Blakiston & Crabb. Blakiston & Crabb has been the main provider of legal services to the Company in respect of matters concerning Australian law. The Company pays legal fees on a normal commercial basis to Blakiston & Crabb.

As a result of Mr Blakiston being a principal of Blakiston & Crabb he does not fit within paragraph 3 of the criteria of independence set out in box 2.1 of the Principles and Recommendations (the "Independence Criteria"). Mr Blakiston passes all other aspects of the Independence Criteria. The Board of CollTech (in the absence of Mr Blakiston) considers he is capable of and demonstrates that he consistently makes decisions and takes actions which are designed to be for the best interests of the Company. The Board notes the fees paid to Blakiston & Crabb are not material to the Company and are not of a high enough level to be material to Mr Blakiston's practice or the firm Blakiston & Crabb. Therefore the Board considers Mr Blakiston to be independent.

Through her consultancy company Integrin Consulting, Dr Kluczewska provides expertise and know-how in relation to the Company's business. The services are provided at normal commercial rates. As a result, Dr Kluczewska does not fit with paragraph 3 of the Independence Criteria. Dr Kluczewska is not a substantial shareholder of the Company and meets all of the other Independence Criteria. Having regard to issues of materiality, the Board, in the absence of Dr Kluczewska, considers that Dr Kluczewska's consultancy relationship with the Company does not impede her ability to act in the best interests of the Company, and for this reason considers her to be independent.

### *STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE*

---

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director then, provided the director first obtains approval for incurring such expense from the chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

### *NOMINATION COMMITTEE*

---

The full Board carries out the function of the Nomination Committee. The Board did not meet formally as the Nomination Committee during the Reporting Period, however any relevant matters were discussed on an as required basis from time to time during regular meetings of the Board.

### *AUDIT COMMITTEE*

---

During the Reporting Period, the full Board (none of whom hold executive positions) carried out the functions of the Audit Committee as required during regular meetings of the Board.

### *CONFIRMATION WHETHER PERFORMANCE EVALUATION OF THE BOARD AND ITS MEMBERS HAVE TAKEN PLACE AND HOW CONDUCTED*

---

During the Reporting Period an evaluation of the Board was informally carried out by the chairman during regular meetings of the Board.

## CORPORATE GOVERNANCE STATEMENT (cont'd)

### *COMPANY'S REMUNERATION POLICIES*

The Remuneration Committee of the Board of Directors of CollTech is responsible for determining and reviewing compensation arrangements for directors, chief executive officer and the executive team. Remuneration levels for executives are competitively set to attract the most qualified and experienced directors and senior executive officers, in the context of prevailing market conditions, the particular experience of the individual concerned and the overall performance of the company with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The assistance of an external consultant or remuneration surveys are used where necessary.

Each of the non-executive directors receives a fixed fee for their services as directors. Non-executive directors' fees not exceeding an aggregate of \$200,000 per annum have been approved by the Company in a general meeting. All of the directors have received a one-off issue of incentive options under the employee option plan. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievements of certain key performance indicators.

### *NAMES OF REMUNERATION COMMITTEE MEMBERS AND THEIR ATTENDANCE AT COMMITTEE MEETINGS.*

Mr Blakiston, in consultation with Mr Pixley performed the role of the Remuneration Committee, with approval for their actions being granted by the Board. No director or executive (ie Mr Pixley) was present at discussions regarding his or her own remuneration.

### *EXISTENCE AND TERMS OF ANY SCHEMES FOR RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS*

There are no termination or retirement benefits for non-executive directors (other than statutory superannuation).

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 \$	2003 \$
Revenues from ordinary activities	2	218,153	148,213
Depreciation expense	3	(9,091)	(490)
Borrowing costs expense	3	(1,218)	0
Other expenses from ordinary activities	3	(1,192,432)	(288,095)
Loss from ordinary activities before income tax benefit		(984,588)	(140,372)
Income tax benefit relating to ordinary activities	4	36,324	0
Loss from ordinary activities after related income tax benefit		(948,264)	(140,372)
Net loss attributable to members of the parent entity	16	(948,264)	(140,372)
Total changes in equity other than those resulting from transactions with owners as owners			
Basic loss per share (cents per share)		(948,264)	(140,372)
Diluted loss per share (cents per share)	7	(1.38 cents)	(0.69 cents)
		(1.38 cents)	(0.69 cents)

*The accompanying notes form part of these financial statements.*

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	Note	2004 \$	2003 \$
<b>CURRENT ASSETS</b>			
Cash assets	8	4,376,202	395,349
Receivables	9	47,526	0
Other	10	12,053	0
<b>TOTAL CURRENT ASSETS</b>		<b>4,435,781</b>	<b>395,349</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	288,531	8,942
<b>TOTAL NON-CURRENT ASSETS</b>		<b>288,531</b>	<b>8,942</b>
<b>TOTAL ASSETS</b>		<b>4,724,312</b>	<b>404,291</b>
<b>CURRENT LIABILITIES</b>			
Payables	12	190,847	44,666
Interest-bearing liabilities	13	16,052	0
Provisions	14	5,174	0
<b>TOTAL CURRENT LIABILITIES</b>		<b>212,073</b>	<b>44,666</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing liabilities	13	13,105	0
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,105</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>		<b>225,178</b>	<b>44,666</b>
<b>NET ASSETS</b>		<b>4,499,134</b>	<b>359,625</b>
<b>EQUITY</b>			
Contributed equity	15	5,587,773	500,000
Accumulated losses	16	(1,088,639)	(140,375)
Parent entity interest		4,499,134	359,625
<b>TOTAL EQUITY</b>		<b>4,499,134</b>	<b>359,625</b>

*The accompanying notes form part of these financial statements.*

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 \$	2003 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		117,433	145,000
Payments to suppliers and employees		(773,932)	(243,501)
Interest received		113,153	3,213
Borrowing costs		(1,218)	0
Income tax received		36,324	0
Net cash used in operating activities	19(a)	<u>(508,240)</u>	<u>(95,288)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(144,907)	(9,432)
Net cash used in investing activities		<u>(144,907)</u>	<u>(9,432)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		5,000,000	499,997
Costs of share issue		(362,227)	0
Repayment of borrowings		(3,773)	0
Net cash provided by financing activities		4,634,000	499,997
Net increase in cash held		3,980,853	395,277
Cash at the beginning of the financial year		395,349	72
Cash at the end of the financial year	8	<u>4,376,202</u>	<u>395,349</u>

*The accompanying notes form part of these financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

## ***NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES***

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report covers CollTech as an individual company. CollTech is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### **(a) Income Tax**

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### **(b) Property, Plant and Equipment**

Each class of property, plant and equipment are carried at cost or fair value less, where applicable, any accumulated depreciation.

#### **Property**

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. It is the policy of the Company to have an independent valuation every three years, with annual appraisals being made by the directors.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)*

#### **Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

#### **Depreciation**

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a reducing balance basis over their useful lives to the Company commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to depreciation. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The major depreciation rates are between 7.5% and 40%.

#### **(c) Research and Development Expenditure**

Research and Development costs are charged to profit from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. To date no research and development costs, including costs associated with patent applications, have been deferred.

#### **(d) Foreign Currency Transactions and Balances**

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

The assets and liabilities of the overseas controlled entities, which are self-sustaining, are translated at year-end rates and operating results are translated at the rates ruling at the end of each month. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

Exchange differences arising on hedged transactions undertaken to hedge foreign currency exposures, other than those for the purchase and sale of goods and services, are brought to account in the profit from ordinary activities when the exchange rates change. Any material gain or loss arising at the time of entering into hedge transactions is deferred and brought to account in the profit from ordinary activities over the lives of the hedges.

Costs or gains arising at the time of entering hedged transactions for the purchase and sale of goods and services, and exchange differences that occur up to the date of purchase or sale, are deferred and included in the measurement of the purchase or sale. Gains and losses from speculative foreign currency transactions are brought to account in the profit from ordinary activities when the exchange rate changes.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)*

#### (e) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

#### (f) Cash

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

#### (g) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

#### (h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

#### (i) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)*

#### (j) Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year. Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period.

The Company's management and board are assessing the significance of these changes and preparing for their implementation. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The Company's management and Board are of the opinion that the key potential implications in the Company's accounting policies which will arise from the adoption of IFRS are:

#### **Income Tax**

Under IFRS, tax assets and liabilities are recognized using the balance sheet approach rather than an income statement approach. In addition, tax assets are recognized when recovery is probable rather than assured beyond reasonable doubt and/or virtually certain. This will result in a change to the current accounting policy, under which deferred tax balances are determined using an income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and /or taxable income or loss and current and deferred taxes cannot be recognized directly in equity.

#### **Impairment of Assets**

The Company currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets used and subsequent disposal. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

#### **Equity-based Compensation Benefits**

Under AASB 2 Share Based Payment, equity-based compensation to employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 2: REVENUE 2004*

	2004 \$	2003 \$
Operating activities		
– Interest received on deposits	113,153	3,213
– Grant - Biotechnology Innovation Fund	105,000	145,000
Total Revenue	<u>218,153</u>	<u>148,213</u>

### *NOTE 3: LOSS FROM ORDINARY ACTIVITIES*

Loss from ordinary activities before income tax has been determined after charging as expenses:

#### Borrowing costs:

– Other persons	1,218	0
Total borrowing costs	<u>1,218</u>	<u>0</u>

#### Depreciation of non-current assets:

– Plant and equipment	9,091	490
Total depreciation	<u>9,091</u>	<u>490</u>

#### Other Expenses from Ordinary Activities:

Significant Item: Write-down of investment in Jessains Pty Ltd	449,998	0
Auditors' remuneration (Note 6)	11,300	3,500
Rent	19,431	18,738
Public company administration	54,085	260
Travel and accommodation	30,050	19,904
Executive payroll	154,024	0
Consultancy and professional services	398,336	223,574
Other expenses	75,208	22,119
Total Other Expenses From Ordinary Activities	<u>1,192,432</u>	<u>288,095</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 4: INCOME TAX BENEFIT 2004

	2004 \$	2003 \$
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:		
Prima facie tax payable on loss from ordinary activities before income tax at 30% (2003: 30%)	(295,376)	(42,112)
Add:		
Tax effect of:		
– non-deductible write-down of investment	134,999	0
– other non-allowable items	13,594	617
R & D tax offset refunded in the current year	(36,324)	0
Benefit of income tax losses not brought to account	(183,107)	(41,495)
Income tax benefit attributable to loss from ordinary activities	146,783	41,495
Future income tax benefit from tax losses not brought to account at balance date as realisation of the benefit is not regarded as virtually certain	(36,324)	0
	<b>151,954</b>	<b>41,495</b>

The future income tax benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) no changes in tax legislation adversely affect the Company in realising the benefit.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 5: REMUNERATION OF DIRECTORS AND EXECUTIVES*

(a) Names and positions held of Parent Entity Directors and Specified Executives in office at any time during the financial year are:

#### *Parent Entity Directors*

**Mr Michael Blakiston** Chairman – Non-Executive (appointed 27 November 2003)

**Dr Anna Kluczewska** Director – Non-Executive (appointed 6 August 2003)

**Dr John Snowden** Director – Non-Executive (appointed 17 December 2002)

#### *Past directors who held office during the year:*

**Mr Michael Pixley** Director & Chief Executive Officer (resigned as director 27 November 2003)

**Dr David Kennedy** Director & Chief Operating Officer (resigned as director 6 August 2003)

**Mrs Nadine Donovan** Director & Company Secretary  
(resigned as director 4 November 2003 and as company secretary 20 February 2004)

**Mr Anthony Kain** Director- Non-Executive (resigned 24 July 2003)

#### *Specified Executives*

**Mr Mathew Whyte** Chief Financial Officer/Company Secretary (appointed 5 January 2004)

For the purposes of all disclosures relating to Directors and Executives, in accordance with AASB 1046, remuneration for both Mr Pixley and Dr Kennedy, who served in the capacity as both directors and as executives for part of the reporting period, has been classified and reported as directors' remuneration and not executives' remuneration. Other than Mr Whyte, the company had no other Specified Executives.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 5: REMUNERATION OF DIRECTORS AND EXECUTIVES (cont'd)*

**(b) Specified Directors' Remuneration**

	2003		Primary			Equity	Other	Total
	Salary, Fees & Commissions		Super -annuation	Cash Bonus	Non-Cash Benefits			
	\$	\$	\$	\$	\$			
<b>Mr Michael Blakiston</b>	21,667	1,950	0	0	153,000	0	0	176,617
<b>Dr Anna Kluczewska</b>	8,333	750	0	0	44,370	0	0	53,453
<b>Dr John Snowden</b>	8,333	750	0	0	295,800	0	0	304,883
Past directors who held office during the year:								
<b>Mr Michael Pixley</b> <sup>(1)</sup>	27,792	29,067	0	0	0	0	0	56,859
<b>Dr David Kennedy</b> <sup>(2)</sup>	120,615	3,600	0	0	0	0	0	124,215
<b>Mrs Nadine Donovan</b>	0	0	0	0	0	0	0	0
<b>Mr Anthony Kain</b>	0	0	0	0	0	0	0	0
	<b>186,740</b>	<b>36,117</b>	<b>0</b>	<b>0</b>	<b>493,170</b>	<b>0</b>	<b>0</b>	<b>716,027</b>

(1) Of this amount, only \$16,665 was paid for services provided whilst acting as a director.

(2) Of this amount, only \$10,000 was paid for services provided whilst acting as a director.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

## *NOTE 5: REMUNERATION OF DIRECTORS AND EXECUTIVES (cont'd)*

### (b) Specified Directors' Remuneration (CONT'D)

	2003		Primary			Equity	Other	Total	
	Salary, Fees & Commissions	\$	Super -annuation	\$	Cash Bonus	\$	Non-Cash Benefits	\$	Options
		\$		\$		\$		\$	
<b>Dr John Snowden</b>	0	0	0	0	0	0	0	0	0
<b>Mr Michael Pixley</b> (appointed 17/12/02)	23,331	0	0	0	0	0	0	0	23,331
<b>Dr David Kennedy</b> (appointed 10/12/02)	68,000	0	0	0	0	0	0	0	68,000
<b>Mr S Sassine</b> (retired 10/12/02)	0	0	0	0	0	0	0	0	0
<b>Mr Anthony Kain</b> (appointed 10/4/03)	0	0	0	0	0	0	0	0	0
	<b>91,331</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>91,331</b>

### (c) Specified Executives' Remuneration

	2004		Primary			Equity	Other	Total	
	Salary, Fees & Commissions	\$	Super -annuation	\$	Cash Bonus	\$	Non-Cash Benefits	\$	Options
		\$		\$		\$		\$	
<b>Mr Mathew Whyte</b>	56,322	4,655	0	0	74	0	0	0	61,051

During the year ended 30 June 2004 Mr Whyte was the only executive (other than executive directors) employed by the company. No executives (other than executive directors) were employed by the company during the year ended 30 June 2003.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 5: REMUNERATION OF DIRECTORS AND EXECUTIVES (cont'd)*

**(d) Remuneration Options**

Options Granted As Remuneration

				Terms & Conditions For Each Grant			
	Granted Vested No.	Number	Grant Date	Value per Option at Grant Date	First Exercise Price	First Exercise Date	Last Exercise Date
<i>Specified Directors</i>							
<b>Mr Michael Blakiston</b> <sup>(1)</sup>	1,500,000	1,500,000	01/12/03	\$0.102	\$0.20	01/12/03	1/12/06
<b>Dr Anna Kluczewska</b> <sup>(2)</sup>	435,000	870,000	01/12/03	\$0.102	\$0.20	01/12/03	1/12/06
<b>Dr John Snowden</b> <sup>(3)</sup>	2,900,000	2,900,000	01/12/03	\$0.102	\$0.20	01/12/03	1/12/06
<i>Specified Executives</i>							
<b>Mr Mathew Whyte</b> <sup>(4)</sup>	130,000	650,000	28/05/04	\$0.0006	\$0.25	28/05/04	28/05/09
	<hr/>	<hr/>					
	4,965,000	5,920,000					

- (1) Options granted to Mr Blakiston vested as follows: 750,000 on the date of grant and 750,000 6 months from the date of grant. Options were granted pursuant to the CollTech Share Option Plan and expire 3 years from the date of grant.
- (2) Options granted to Dr Kluczewska vested as follows: 435,000 on the date of grant, 217,500 12 months from the date of grant and 217,500 24 months from the date of grant. If Dr Kluczewska is not a director of the Company at future vesting dates then to the extent they are not already vested the Options shall be deemed to have expired on the date that Dr Kluczewska ceases to be a director. All Options were granted pursuant to the CollTech Employee Share Option Plan and expire 3 years from the date of grant.
- (3) Options granted to Dr Snowden vested at grant date. Of the 2,900,000 Options granted 2,345,000 Options were granted pursuant to the CollTech Employee Share Option Plan. Options expire 3 years from the date of grant.
- (4) Options granted to Mr Whyte vested as follows:
  - (a) 130,000 on date of grant;
  - (b) 260,000 on the date of commercialisation of the Company's plant in Collie Western Australia, which is expected to occur in financial year 2005;
  - (c) 130,000 12 months after (b) above; and
  - (d) 130,000 12 months after (c) above.

If Mr Whyte is not an employee of the Company at future vesting dates then to the extent they are not already vested the Options shall be deemed to have expired on the date that Mr Whyte ceases to be an employee. All options expire 5 years from the date of grant.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

## *NOTE 5: REMUNERATION OF DIRECTORS AND EXECUTIVES (cont'd)*

(e) **Shares Issued on Exercise of Remuneration Options**

Options Granted As Remuneration

No shares have been issued on exercise of any remuneration options.

(f) **Option Holdings**

Number of options held by Specified Directors & Executives

	Balance 1.7.03	Granted as Remun- eration	Options Exercised	Net Change Other*	Balance 30.6.04	Total Vested 30.6.04	Total Exercisable	Total Unexercis- able
<i>Specified Directors</i>								
Mr Michael Blakiston	0	1,500,000	0	0	1,500,000	1,500,000	0	1,500,000
Dr Anna Kluczewska	0	870,000	0	0	870,000	435,000	0	870,000
Dr John Snowden	0	2,900,000	0	0	2,900,000	2,900,000	0	2,900,000
Mr Michael Pixley (retired 27/11/03)	0	0	0	2,900,000	2,900,000	2,900,000	0	2,900,000
<i>Specified Executives</i>								
Mr Mathew Whyte	0	650,000	0	0	650,000	130,000	130,000	520,000
Total	0	5,920,000	0	2,900,000	8,820,000	7,865,000	130,000	8,690,000

All Options granted to Specified Directors above are unlisted and escrowed for a period of 24 months commencing 13 February 2004.

\* "Net Change Other" includes those options that were issued during the year other than as remuneration.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 5: REMUNERATION OF DIRECTORS AND EXECUTIVES (cont'd)*

**(g) Shareholdings**

Number of Shares held by Specified Directors and Specified Executives

	Balance 1.7.03	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.6.04
<b>Specified Directors</b>					
Dr John Snowden <sup>(1)</sup>	9,000,000	0	0	(1,800,000)	7,200,000
Dr Anna Kluczewska <sup>(2)</sup>	0	0	0	132,600	132,600
Mr Michael Pixley (retired 27/11/03) <sup>(1)</sup>	8,250,000	0	0	(1,650,000)	6,600,000
<b>Specified Executives</b>					
Mr Mathew Whyte <sup>(2)</sup>	0	0	0	75,000	75,000
<b>Total</b>	<b>17,250,000</b>	<b>0</b>	<b>0</b>	<b>(3,242,400)</b>	<b>14,007,600</b>

(1) \* "Net Change Other" refers to a 4 for 5 consolidation of the entire share capital of the Company which occurred on 1 December 2003. These shareholdings were vendor shares issued pre initial public offering and are escrowed for a period of 24 months commencing on the date of official quotation of the Company's shares on ASX being 13 February 2004.

(2) Shares acquired on market, from IPO or from third parties.

**(h) Remuneration Practices**

The remuneration committee of the Board of Directors of CollTech is responsible for determining and reviewing compensation arrangements for directors, chief executive officer and the executive team. Remuneration levels for executives are competitively set to attract the most qualified and experienced directors and senior executive officers, in the context of prevailing market conditions, the particular experience of the individual concerned and the overall performance of the Company with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The assistance of an external consultant or remuneration surveys are used where necessary.

Each of the non-executive directors receives a fixed fee for their services as directors. Non-executive directors' fees not exceeding an aggregate of \$200,000 per annum have been approved by the Company in a general meeting. All of the directors have received a one-off issue of incentive options under the employee option plan. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievements of certain key performance indicators.

The contracts of service between the Company and each of the specified executives and former executive directors are for 12 month periods and contain notice periods of three months. The treatment of options granted as remuneration and which may not have vested prior to any director or executive ceasing to hold office, is disclosed in Note 5 (d).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

## NOTE 6: AUDITORS' REMUNERATION

	2004 \$	2003 \$
Remuneration of the auditor of the company for:		
– auditing or reviewing the financial report	11,300	3,500
– other services	0	0
	<u>11,300</u>	<u>3,500</u>

## NOTE 7: EARNINGS PER SHARE

(a) Reconciliation of earnings to net loss		
Net loss	(948,264)	(140,372)
Earnings used in the calculation of basic and dilutive EPS	(948,264)	(140,372)
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS	68,910,685	20,376,986
(c) Classification of securities		
Diluted earnings per share will not be any different to basic earnings per share, as it is not considered that the options on issue as disclosed in Note 15(c) will have a dilutive effect on EPS (as the company incurred a loss for the year).		

## NOTE 8: CASH ASSETS

	\$	\$
Cash at bank	26,258	7,825
Deposits at call	4,349,944	387,524
	<u>4,376,202</u>	<u>395,349</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 9: RECEIVABLES

	2004 \$	2003 \$
<b>CURRENT</b>		
GST Receivable	47,526	0

### NOTE 10: OTHER ASSETS

CURRENT	2004 \$	2003 \$
Prepayments	12,053	0

### NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	2004 \$	2003 \$
Plant and equipment		
At cost	49,140	9,432
Accumulated depreciation	(9,580)	(490)
	39,560	8,942
Plant and equipment under construction	248,971	0
	288,531	8,942

Movements in Carrying Amounts:

2004	Plant and Equipment	Plant and equipment under construction	Total	
			\$	
Balance at the beginning of the year		8,942	0	8,942
Additions		39,709	248,971	288,680
Disposals		0	0	0
Depreciation expense		(9,091)	0	(9,091)
Carrying amount at the end of the year		39,560	248,971	288,531

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

***NOTE 12: PAYABLES*****2004**

	2004	2003
	\$	\$
<b>CURRENT</b>		
Trade & other creditors and accruals	<u>190,847</u>	<u>44,666</u>

***NOTE 13: INTEREST BEARING LIABILITIES***

<b>CURRENT</b>		
Hire purchase liability - Note 17(a)	16,052	0
<b>NON-CURRENT</b>		
Hire purchase liability - Note 17(a)	<u>13,105</u>	<u>0</u>

***NOTE 14: PROVISIONS***

<b>CURRENT</b>		
Employee entitlements	5,174	0
Aggregate employee benefits liability	<u>5,174</u>	<u>0</u>
Number of employees at balance date	No. 3	No. 0

***NOTE 15: CONTRIBUTED EQUITY***

<b>(a) Issued and paid up capital</b>		
97,000,000 (2003: 54,000,000) fully paid ordinary shares	<u>5,587,773</u>	<u>500,000</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### NOTE 15: CONTRIBUTED EQUITY (cont'd)

	2004		2003	
	Number of Shares	\$	Number of Shares	\$
(b) Movements in shares on issue				
Balance at the beginning of the financial year	54,000,000	500,000	3	3
Shares issued during year:				
– Issued to Founders	0	0	53,999,997	499,997
– 4 for 5 consolidation of share capital	(10,800,000)	0	0	0
– Acquisition of Jessains Pty Ltd pursuant to sale and purchase agreement	10,000,000	450,000	0	0
– Issue to Permanent Trustees Australia as trustee for Australian Development Capital Fund pursuant to Surrender Agreement	18,800,000	846,000	0	0
– Surrender of right pursuant to Surrender Agreement being a direct cost of issue	0	(846,000)	0	0
– Issue of 25 million shares at 20 cents pursuant to Prospectus	25,000,000	5,000,000	0	0
– Capital raising costs of the issue	0	(362,227)	0	0
Balance at the end of the financial year	<b>97,000,000</b>	<b>5,587,773</b>	<b>54,000,000</b>	<b>500,000</b>

**(c) Share Options**

Options over ordinary shares issued during the year and outstanding at balance date:

*6,250,000 Listed Options Expiring 30 June 2005*

On 20 February 2004, 6,250,000 options were issued over ordinary shares, exercisable any time prior to their expiry date being 30 June 2005. The options were issued on the basis of one option for every four shares issued pursuant to the Prospectus dated 5 December 2003. The options are listed on the ASX and have an exercise price of \$0.25.

*5,800,000 Unlisted Options Expiring 28 November 2006*

On 28 November 2003, 5,800,000 options were granted over ordinary shares, exercisable any time prior to their expiry date being 3 years from the date of grant. The options have an exercise price of \$0.20 each. Pursuant to the Company listing on ASX these options are subject to restriction agreements which escrow the options until 13 February 2006 being 24 months from the date on which quotation of ordinary shares commenced.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

## NOTE 15: CONTRIBUTED EQUITY (cont'd)

### *5,270,000 Unlisted Options Expiring 1 December 2006*

On 1 December 2003, 5,270,000 options over ordinary shares were granted to certain directors (of which 4,715,000 were granted pursuant to the CollTech Employee Share Option Plan) exercisable at various times (Refer Note 5 (d)) prior to their expiry date being 3 years from the date of grant. The options have an exercise price of \$0.20 each. Pursuant to the Company listing on ASX these options are subject to restriction agreements which escrow the options until 13 February 2006 being 24 months from the date on which quotation of ordinary shares commenced.

### *650,000 Unlisted Options Expiring 28 May 2009*

On 28 May 2004, 650,000 options over ordinary shares were granted to an executive exercisable at various times (Refer Note 5(d)) prior to their expiry date being 5 years from date of grant. The options have an exercise price of \$0.25 each.

#### (d) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

## NOTE 16: ACCUMULATED LOSSES

	2004	2003
	\$	\$
Accumulated losses at the beginning of the financial year	(140,375)	(3)
Net loss attributable to the members of the parent entity	(948,264)	(140,372)
Accumulated losses at the end of the financial year	<u>(1,088,639)</u>	<u>(140,375)</u>

## NOTE 17: HIRE PURCHASE AND CAPITAL EXPENDITURE COMMITMENTS

	2004	2003
	\$	\$
(a) Hire Purchase Commitments Payable		
– not later than 1 year	18,190	0
– later than 1 year but not later than 5 years	13,643	0
– later than 5 years	0	0
Minimum hire purchase payments	<u>31,833</u>	0
Less future finance charges	(2,676)	0
Total Hire Purchase Liability	<u>29,157</u>	0
Included in the financial statements as follows:		
Current liability (Note 13)	16,052	0
Non-current liability (Note 13)	13,105	0
	<u>29,157</u>	0

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 17: HIRE PURCHASE AND CAPITAL EXPENDITURE COMMITMENTS (cont'd)*

	2004	2003
	\$	\$
<b>(b) Capital Expenditure Commitments</b>		
Capital expenditure commitments contracted for at balance date:		
– Plant and equipment purchases	636,346	0
– Capital expenditure projects	1,110,000	0
	<b>1,746,346</b>	<b>0</b>
<b>Payable</b>		
– not later than 1 year	1,746,346	0
– later than 1 year but not later than 5 years	0	0
– later than 5 years	0	0
	<b>1,746,346</b>	<b>0</b>

### NOTE 18: SEGMENT REPORTING

#### Business and Geographical Segments

The Company's business involves the process of extracting and purifying collagen from animal sources in Australia for sale, and as such, currently represents only one reportable business and geographical segment

### NOTE 19: CASH FLOW INFORMATION

	2004	2003
	\$	\$
<b>(a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax</b>		
<b>Loss from ordinary activities after income tax</b>		
	(948,264)	(140,372)
<b>Non-cash flows in loss from ordinary activities:</b>		
Depreciation	9,091	490
Write-down of investment in Jessains Pty Ltd	449,998	0
<b>Changes in operating assets and liabilities:</b>		
Increase/(decrease) in receivables	(12,053)	65
(Increase)/decrease in trade creditors and borrowing	36,749	44,529
Increase/(decrease) in GST payable	(48,935)	0
Increase/(decrease) in provisions	5,174	0
<b>Net cash used in operating activities</b>	<b>(508,240)</b>	<b>(95,288)</b>
<b>(b) Non-cash Financing and Investing Activities</b>		
During the year the company acquired plant and equipment with an aggregate value of \$31,832 (2003: \$0) by means of hire purchase. These acquisitions are not reflected in the Statement of Cash Flows.		

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

## NOTE 20: EMPLOYEE BENEFITS

### **Employee Share Option Arrangements**

- (a) On 1 December 2003, 5,270,000 options were granted (of which 4,715,000 were granted pursuant to the CollTech Employee Share Option Plan) over ordinary shares, exercisable at various times (Refer Note 5 (d) ) prior to their expiry date being 3 years from date of grant. The options have an exercise price of \$0.20 each. Pursuant to the Company listing on ASX these options are subject to restriction agreements which escrow the options until 13 February 2006 being 24 months from the date on which quotation of ordinary shares commenced.
- (b) On 28 May 2004, 650,000 options were granted over ordinary shares, exercisable at various times (Refer Note 5 (d) prior to their expiry date being 5 years from date of grant. The options have an exercise price of \$0.25 each. The closing share market price of an ordinary share of CollTech Australia Limited on the Australian Stock Exchange at 30 June 2004 was 14.5 cents(30 June 2003: N/A).

2004 No.	2003 No.
0	0
5,920,000	0
0	0
0	0
<b>5,920,000</b>	<b>0</b>

Movement in the number of share options held by employees (including directors) and granted as remuneration are as follows:

Opening balance  
Granted during the year  
Exercised during the year  
Lapsed during the year  
Closing Balance

Details of share options held by employees (including directors) and granted as remuneration outstanding as at balance date:

Grant Date	Expiry & Exercise Date	Exercise Price	2004	2003
1/12/03	1/12/06	\$0.20	5,270,000	0
28/05/04	28/05/09	\$0.25	650,000	0
			<b>5,920,000</b>	<b>0</b>

## NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year CollTech has entered into an agreement with Fletcher International Exports for the supply of sheep pelts, being a raw material for its ovine collagen extraction process. Colltech has also appointed National Australia Bank (NAB) as its primary banker. Colltech has accepted a proposal from NAB to enter into a \$950,000 hire purchase facility with the NAB which will be used to assist in the funding of plant and equipment required for its collagen extraction plant under construction in Collie WA. The financial effect of these events has not been brought to account at balance date.

Except for the above developments, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significant affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 22: RELATED PARTY TRANSACTIONS*

---

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

#### **Transactions with related parties:**

##### **Specified Directors' and Specified Executives' Remuneration**

Details of specified directors' and specified executives' remuneration are disclosed in Note 5 to the financial statements.

#### **Transactions with Specified Directors and Specified Executives**

- (a) Mr Blakiston is a principal of the firm Blakiston & Crabb. Blakiston & Crabb has been the main provider of legal services to the Company in respect of matters concerning Australian law. During the financial year the Company paid legal fees on a normal commercial basis to Blakiston & Crabb of \$82,345 (excluding GST) (2003:\$0)
- (b) The Company has entered into a Consultancy Agreement with Integrin Consulting and Dr Kluczewska whereby Integrin Consulting is engaged as a consultant and will procure the services of Dr Kluczewska. The services are provided for a consultancy fee of \$1,000 per day (plus GST). During the financial year the company paid consulting fees to Integrin Consulting of \$26,700 (excluding GST) (2003:\$0).
- (c) The Company has entered into a Consultancy Agreement with Dr John Snowden whereby Dr Snowden is engaged as a consultant to provide his expertise and know-how relating to the Company's business. The services are provided for a consultancy fee of \$1,000 per day (plus GST). During the financial year the company paid consulting fees to Dr Snowden of \$57,000 (excluding GST) (2003:\$0).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

## NOTE 23: FINANCIAL INSTRUMENTS

### (a) Interest Rate Risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted		Fixed Interest Rate Maturing												Non-interest		Total	
	Average		Interest Rate Maturing												Bearing			
	Effective		Floating		Within Year		1 to 5 Years		Over 5 Years		Bearing							
	Interest Rate	Interest Rate	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	2004	2003	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	2004	2003
Financial Assets:																		
Cash					4,376,202	395,349	0	0	0	0	0	0	0	0	0	4,376,202	395,349	
Receivables					0	0	0	0	0	0	0	0	0	47,526	0	47,526	0	
Total Financial Assets					4,376,202	395,349	0	0	0	0	0	0	0	47,526	0	4,423,728	395,349	
Financial Liabilities:																		
Payables					0	0	0	0	0	0	0	0	190,847	44,666	190,847	44,666		
Hire purchase liabilities	9.75%	N/A			0	0	16,052	0	13,105	0	0	0	0	0	29,157	0		
Total Financial Liabilities					0	0	16,052	0	13,105	0	0	0	190,847	44,666	220,004	44,666		

### (b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in relation to each class of recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

### (c) Net Fair Values

The net fair values of all monetary financial assets and liabilities approximate their carrying values. No financial assets or financial liabilities are readily traded on organized markets in standardized form.

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the Statement of Financial Position and Notes to the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### *NOTE 24: CONTROLLED ENTITIES*

---

#### Controlled Entity Gained & Disposed Of

As disclosed in the Company's Prospectus dated 5 December 2003 and 31 December 2003 half year accounts the Company acquired all of the issued capital of Jessains Pty Ltd pursuant to a Sale and Purchase Agreement in November 2003 through the issue of 10 million shares at a fair value of 4.5 cents per share. This fair value was determined as the Company's net asset backing per share based on the proforma statement of financial position included in the Company's Prospectus. The Company sought deregistration of Jessains Pty Ltd effective 30 June 2004 and the investment in Jessains Pty Ltd of \$449,998 was written off.

### *NOTE 25: COMPANY DETAILS*

---

The registered office and principal place of business of the company is:

**First Floor Churchill Court , 335 Hay Street , Subiaco, WA 6008**

## DIRECTORS' DECLARATION

In the opinion of the directors of the company :

1. the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
  - a. comply with Accounting Standards and Corporations Regulations 2001; and
  - b. Giving a true and fair view of the company's financial position as at 30 June 2004 and of the performance for the year ended on that date; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



**Mr Michael Blakiston**  
Director

Dated this 24th day of September 2004.

# 03 ANNUAL FINANCIAL REPORT

## INDEPENDENT AUDIT REPORT

To the members of  
**COLLTECH AUSTRALIA LIMITED**

### Scope

#### The Financial Report and Directors' Responsibility

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

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

### Audit Approach

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

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

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

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

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

### Independence

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

### Audit Opinion

In our opinion, the financial report of CollTech Australia Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of CollTech Australia Limited as at 30 June 2004 and of its performance for the period then ended; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**HLB MANN JUDD**  
Chartered Accountants  
**L DI GALLONARDO**  
Partner  
Perth, Western Australia  
24 September 2004

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd (ASX), and is based on information current as at 16 September 2004 :

**1. Equity Securities:**

a. Distribution of Shareholders Number

Category (size of Holding)	Total number of holders	Ordinary Share (CAU)	% of issued capital
1 - 1,000	119	36,163	0.04
1,001 - 5,000	74	234,066	0.24
5,001 - 10,000	112	1,028,961	1.06
10,001 - 100,000	432	17,014,200	17.54
100,001 - and over	124	78,686,610	81.12
	861	97,000,000	100%

b. Distribution of Listed Option Holders Number

Category (size of Holding)	Total number of holders	Options expiring 30/6/2005 (CAUO)	% of listed Options
1 - 1,000	0	0	0.0
1,001 - 5,000	95	317,750	5.08
5,001 - 10,000	67	437,125	6.99
10,001 - 100,000	97	2,450,250	39.20
100,001 - and over	11	3,044,876	48.72
	270	6,250,000	100%

c. The number of shareholdings of Ordinary Shares held in less than marketable parcels is 3,334 representing 160 holders and 123,258 shares.

d. The names of the substantial shareholders as notified to the Company and listed in the Company's register are:

Name	Number of Ordinary Shares	% of Issued Capital
Dr John Snowden and Mrs Pauline Snowden	7,200,000	7.42%
IRSS Nominees (21) Limited ATF M&M Retirement Fund	6,600,000	6.80%
Lifescience Investment Group Inc	6,600,000	6.80%

e. Voting Rights

Voting rights attaching to Ordinary Shares are as follows:

Each Ordinary Share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (cont'd)

f. 20 Largest Holders –Issued Ordinary Shares

Name	Number of Ordinary Shares	% held of issued Ordinary Shares
1. Dr John Snowden and Mrs Pauline Snowden	7,200,000	7.42
2. IRSS Nominees (21) Limited	6,600,000	6.80
3. Lifescience Investment Group Inc	6,600,000	6.80
4. Oaktone Nominees Pty Ltd	5,000,000	5.15
5. Aymon Pacific Pty Ltd <Jerezos Discretionary a/c>	3,500,000	3.61
6. M F Custodians Ltd	2,700,000	2.78
7. Australian Development Capital Limited	2,318,249	2.39
8. Mr Craig Burton <Burton Super Fund a/c>	2,300,000	2.37
9. Mr Chui-Tu Chiu	1,819,654	1.88
10. Gwynvill Trading Pty Limited	1,750,000	1.80
11. Merrill Lynch (Australia) Nominees Ltd	1,500,000	1.55
12. Bror Joel Runo Nessen	1,500,000	1.55
13. Brindabella Holdings Pty Ltd	1,400,000	1.44
14. Sampala Investments Pty Ltd	1,223,100	1.26
15. Mr Chui-Tu Chiu	1,000,000	1.03
16. Fiori Pty Ltd	895,235	0.92
17. Mr Kenneth John Kohen and Mrs Anne Marie Kohen<Super Fund Account>	890,000	0.92
18. Mega-Min Resources NL <Mega-Min a/c>	875,000	0.90
19. Blue Chip Securities Pty Ltd <The Merifield Family a/c>	866,563	0.89
20. UBS Private Clients Australia Nominees Pty Ltd	860,000	0.89
	<hr/> <u>50,797,801</u>	<hr/> <u>52.35</u>

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (cont'd)

g. 20 Largest Holders – Listed Options expiring 30/6/2005

Name	Number of listed Options held	% of listed Options
1. Fairview Holdings Pty Ltd	918,876	14.70
2. Mr Craig Bottomley	425,000	6.80
3. Clear Island Investments P/L <Leggett Family a/c>	236,000	3.78
4. Trust Company Superannuation Services Ltd <JWP S/F a/c>	225,000	3.60
5. UBS Private Clients Australia Nominees Pty Ltd	213,750	3.42
6. Mr John Bede Donnelly and Mrs Cecily Catherine Donnelly	201,250	3.22
7. Clear Island Investments Pty Limited <Super Fund a/c>	200,000	3.20
8. Kilkee Pty Ltd <Peterson Family a/c>	200,000	3.20
9. Gwynvill Trading Pty Limited	187,500	3.00
10. Cogent Nominees Pty Ltd	125,000	2.00
11. Mr Christopher Quenby Brampton and Mrs Robyn Lindley Brampton	112,500	1.80
12. Mr Damien A Hannes	93,750	1.50
13. Mrs Maria Pilla	87,500	1.40
14. Mr Alan John Shaw	75,000	1.20
15. GWH Marketing Pty Ltd	72,500	1.16
16. EACH Nominees Pty Ltd	62,500	1.00
17. Mr Geoff Moles	62,500	1.00
18. Sunshore Holdings Pty Ltd	62,500	1.00
19. Surpion Pty Ltd<No 2 Account>	62,500	1.00
20. Mrs Mary Ann Smith	55,000	0.88
	<b>3,678,626</b>	<b>58.86</b>

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (cont'd)

**h. Restricted Securities:**

The number and class of restricted securities that are on issue, but not quoted on ASX official list, and the date that the escrow period ends is as follows:

Description of restricted security	Number of restricted securities	Date of completion of escrow period
1. Ordinary Shares, restricted 12 months from date of issue (1/12/2003).	10,000,000	1 December 2004
2. Ordinary Shares, restricted 24 months from date of official quotation on ASX (13/2/2004).	23,754,001	13 February 2006
3. Unlisted Options expiring 28 November 2006 @ \$0.20, restricted 24 months from date of official quotation on ASX (13/2/2004).	5,800,000	13 February 2006
4. Unlisted Options expiring 1 December 2006 @ \$0.20, restricted 24 months from date of official quotation on ASX (13/2/2004).	5,270,000	13 February 2006

2. The name of the Company Secretary is Mr Mathew Whyte (refer to Directors' Report for further detail).
3. The address of the Company's principal registered office is 1st Floor, Churchill Court, 335 Hay Street, Subiaco, Western Australia. Telephone +618 9388 7600.
4. Registers of securities are held at the following address:  
Computershare Investor Services Pty Ltd, Level 2 Reserve Bank Building, 45 St Georges Terrace, Perth, Western Australia, 6000. Telephone +618 9323 2000.
5. Stock Exchange Listing  
Quotation has been granted for all the Ordinary Shares (CAU) and Listed Options (CAUO) of the Company on all Member Exchanges of the Australian Stock Exchange Limited.
6. Unquoted securities  
Refer to Note 15 (c) for details of unquoted equity securities.
7. There is currently no on- market buy-back for the Company's securities.
8. As required by ASX Listing Rule 4.10.19 CollTech Australia Limited confirms it has used the cash, and assets in a form readily convertible to cash, that it had at the time of admission to the official list of the ASX in a way consistent with the business objectives as outlined in its Prospectus dated 5 December 2003.
9. Annual General Meeting  
The Annual General Meeting of Colltech will be held at the Stirling Room, Parmelia Hilton Perth, Mill Street, Perth Western Australia on 19 November 2004 commencing at 11 am WST.

# COMPANY OVERVIEW

CollTech Australia Limited is a listed bio industrial company (ASX:CAU) which has developed and commercialised its unique process to extract collagen from sheep (ovine) skins. CollTech has patent protection filed over the intellectual property and its process has been independently validated by CSIRO confirming significantly higher yields and purity than collagen extracted from current sources using traditional methods. Collagen production from certified, export quality and traceable Australian sheep is available for the food, cosmetic and skin care industries, and in a highly purified form, to the medical research markets.



[www.colltech.com.au](http://www.colltech.com.au)