



# CORPORATE DIRECTORY

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## ***Directors***

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Mr Michael Blakiston  
CHAIRMAN

Dr Anna Kluczevska  
NON-EXECUTIVE DIRECTOR

Dr John Snowden  
NON-EXECUTIVE DIRECTOR

## ***Company Secretary***

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Mathew Whyte  
CHIEF FINANCIAL OFFICER

## ***Patent Attorney***

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Griffith Hack  
level 19  
109 ST Georges Terrace  
Perth WA 6000

## ***Principal Registered Office***

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Ground Floor  
76 Kings Park Road  
West Perth WA 6872

Tel: (+618) 9426 3900  
Fax: (+618) 9426 3909

## ***Share Registry***

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

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

## ***Bankers***

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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***

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HLB Mann Judd  
15 Rheola Street  
WEST PERTH WA 6005

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

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Blakiston & Crabb  
1202 Hay Street  
WEST PERTH WA 6005

## ***Internet Website***

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



## ***Annual General Meeting***

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The board has convened the annual general meeting to be held at 11am(WST) on **25 November 2005** at the **Pinnacles Room Parmelia Hilton Perth**, Mill Street, Perth Western Australia

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# 02 CHAIRMAN'S REPORT

I am very pleased to introduce the 2005 Annual Report for CollTech Australia in a year of real progress. This, our first full year as a listed company, saw the completion of our Collie collagen extraction facility, the subsequent commissioning of our installed plant which took longer than originally scheduled and solid progress on the development of our process systems. CollTech is poised to capitalise on its international marketing efforts over the recent period and commence commercial operations and sales.

## RESULTS

The Company's primary activity during the year was the construction and commissioning of its production plant in Collie, Western Australia. The full year loss of \$1,525,900 included ongoing commissioning costs and research and development costs in relation to its OVICOLL™ ovine collagen biomaterials.

## CAPITAL MANAGEMENT / FUNDING

In September the Company successfully completed a capital raising of \$2.27 million (net of fees) via a placement and share purchase plan. It is pleasing to report the strong support of shareholders to the Company's first share purchase plan and the keen interest shown by institutional investors.

## STRATEGIC INITIATIVES

In line with CollTech's strategy of moving up the collagen product value chain, your Company is currently implementing a preferred supplier program for its raw material. Additional pelt supply agreements are being negotiated to secure a consistent supply of traceable skins from younger sheep (lambs) which provide higher yields of monomeric soluble collagen important for cosmetic and medical applications. This strategy strengthens our quality assurance over our entire supply chain from raw material to finished product.

A key strategic initiative is the development and supply of higher value medical grade collagen biomaterials. This strategy is linked to the Company's strategy to develop and commercialise collagen based cosmetic end products and medical devices with global collaboration partners. The Company has already made significant progress in this strategy and is negotiating co-development deals for cosmetic products and potential strategic alliances for food grade collagens.

CollTech will strengthen its intellectual property portfolio by building collagen-based platform technologies in drug delivery and wound management around its core process patent for its ovine collagen biomaterial.

## BOARD & MANAGEMENT

Since my last report there have been no changes to CollTech's Board which consist of three non executive directors.

The Board has strengthened the executive management team with the appointment of Dr Learne Hinch as Chief Business Officer and Dr Deborah Cooper as Chief Scientific Officer. With these new appointments CollTech now has significant international business, management and scientific expertise to capitalised on its existing opportunities and strategic initiatives.

## CORPORATE GOVERNANCE

CollTech is committed to transparency and good corporate governance. The Company has embraced the ASX Guidelines recommendations and will continue to improve its systems as the Company expands.

## OUTLOOK

CollTech will capitalise on the initiatives commenced during the year to close existing sales opportunities for its food and cosmetic grade collagens in Japan, Taiwan and China. CollTech's unique ovine collagen biomaterial will enable it to exploit the identified market need for a commercial alternative to replace the BSE (Mad Cow Disease) tainted bovine collagen.

The Company's focus in 2006 will be to optimise its sales revenue from the existing product mix and to finalise the development of its higher value medical-grade research and medical collagen products. Our challenge will be to manage the Company's growth by channelling its resources and sales into higher value product opportunities.

CollTech will also lay the foundation for the Company's future through the development of strategic alliances with innovative partners to develop and commercialise collagen-based cosmetic products and medical devices that advance healthcare.

## ACKNOWLEDGEMENTS

I would like to take this opportunity to thank CollTech's Board, Management and employees for their commitment and contribution during the year. We remain committed to enhancing shareholder value and look forward to the future with confidence.

Michael Blakiston  
CHAIRMAN



# 02 REVIEW OF OPERATIONS

CollTech is pleased to present its review of operations for the past financial year.



## FULL YEAR RESULT

CollTech reported a net loss attributable to members of \$1,525,900 for the year ended 30 June 2005 (2004: \$948,264). The full year loss reflected \$470,382 in commissioning costs associated with the newly constructed collagen extraction facility. On an apportionment basis the Company attributes \$802,000 of its FY 2005 expenditure to research and development cost in relation to its OVICOLL™ ovine-sourced collagen products.

In early September 2005 the Company successfully completed a capital raising of \$2.27 million (net of fees) through a private placement and Share Purchase Plan (SPP) issued at 9.5 cents per share. The capital raising added substantially to the Company's reported 30 June cash balance of \$1,609,211, with cash reserves totalling \$3.2 million at the conclusion of the SPP.

The Company's current cash spend rate on its commissioning and sales and marketing activities, having completed construction of its collagen extraction facility in Collie WA, is approximately \$150,000 per month.

## REVIEW OF OPERATIONS

The Company's primary activity during the financial year has been the construction and commissioning of its collagen extraction facility at Collie WA (Collie Plant).

The Collie Plant is strategically located 2 hours South of Perth WA close to sheepskin supplies, low cost infrastructure and international shipping ports. CollTech took delivery of the newly constructed plant in March 2005 at a capital construction cost of \$2.7 million. The Collie Plant is being accredited to ISO and GMP international standards and will have a 'nameplate' capacity to produce at a rate of approximately 800+ skins per day.

CollTech is pleased to announce that the Collie Plant has an initial operational capacity of 400+ skins per day and is undergoing process improvements to enable production of its food and cosmetic grade collagens. The Company anticipates the commencement of commercial production

in the earlier part of 4Q 2005 with sales contracts expected to be announced shortly thereafter. The first products released for sale will be the Company's OVICOLL™|G collagen targeted at the North Asian cosmetic market and OVICOLL™|F collagen for the food market. The Company expects to release its OVICOLL™|C collagen for the broader cosmetic market in 4Q05.

CollTech is implementing a preferred supplier program to ensure a consistent supply of high quality sheepskins. This program will supplement the Company's existing supply contract with Fletcher International Exports Pty Ltd for up to 800 skins per day and will target suppliers of traceable skins from younger sheep (lambs) which provide higher yields of monomeric soluble collagen important for cosmetic and medical applications.

### INTELLECTUAL PROPERTY

CollTech has developed and patented a novel collagen extraction process that enables the world's first commercial extraction of collagen from a unique source, sheep (ovine) skin. CollTech has a clear International Preliminary Examination (IPE) report on its PCT International Patent Application and is currently proceeding with national phase filing for its collagen extraction process from sheepskin into 10 key patent jurisdictions including China, Japan, USA and Europe.

In May 2005 CollTech announced it had expanded and strengthened its intellectual property portfolio with the grant and certification of an Innovation Patent (No 2005100078) by the Australian Patents Office entitled 'Collagen and method for producing the same'. This patent protects novel aspects of the Company's industrial process for the isolation of bio-molecules such as collagen and gelatine from animal skins. The Innovation Patent compliments and broadens the protection afforded by CollTech's other patent applications.





## MARKETING AND SALES DEVELOPMENTS

CollTech is committed to establishing its biomaterials division as a leading global supplier of high quality collagen. The Company is actively marketing its collagen brand, OVICOLL™, with initial products targeted at the functional food, cosmetic and cosmeceutical market segments. OVICOLL™ collagen is the worlds first commercial source of collagen from ovine (sheep) skin. Ovine collagen is a novel 'clean green' source of collagen with similar properties to bovine and other mammalian sources of collagen, without the risk of Mad Cow Disease.

Dr Leearne Hinch BSc BVMS MBA CollTech's Chief Business Officer is responsible for the Company's global business development programs including commercialization, partnering, sales, distribution and licensing agreements.

Recent market visits by Dr Hinch and Mr Pixley (CEO) to

the USA, Japan, Singapore and India to conduct market research and meet with potential partners, distributors and customers has confirmed the market potential for ovine-sourced collagen. CollTech's exhibition at the BIO2005 world biotechnology conference in Philadelphia USA yielded strong interest from major pharma and medical device companies in OVICOLL™ ovine collagens as a replacement for existing collagen sources in a range of drug delivery, wound healing and tissue engineering applications. In addition, CollTech's attendance of the WA Premiers Mission to Japan showed that cosmetic manufacturers recognized the potential advantages of CollTech's high grade cosmetic product - OVICOLL™|C, with immediate requests for samples for product evaluation and trial.

The Company is currently closing sales opportunities in Taiwan and Japan for its cosmetic-grade collagen and negotiating supply and joint-venture opportunities for its collagen for sausage casings.

**OVICOLL™ COMPARISON**

	Bovine	Porcine	Equine	Avian	Marine	Recombinant	OVICOLL™
<b>Source</b>	Cow	Pig	Horse	Chicken	Fish	Human	Sheep
<b>Tissue</b>	Skin	Skin	Tendon	Feet	Scales	DNA	Skin
<b>Image</b>	Unsafe	OK	OK	OK	Good	Novel	Novel
<b>Type</b>	I/III	I/III	I	I/III	I/III	I	I/III
<b>Price</b>	Low	Low	High	High	High	Very High	Low
<b>Disease issues</b>	BSE	No	No	Avian Influenza	No	nd**	No
<b>Traceability/QA*</b>	Yes	Yes	Yes	Yes	No	Yes	Yes
<b>Purity*</b>	Good	Good	High	Good	Good	High	High
<b>HYP%</b>	High	High	High	High	Low	High	High
<b>Monomer%*</b>	Good	Good	Good	Excellent	Low	Excellent	Excellent
<b>Thermal Stability</b>	High	High	High	High	Low	High	High
<b>Water regain</b>	High	High	High	High	Low	High	High
<b>Antigenicity</b>	Low	Low	Low	High	High	Low	Low
<b>Availability*</b>	Bans	Reliable	Limited	Variable	Variable	Research	Reliable

\* Manufacturer Dependent

\*\* Not Determined

**ADVANCED TIMELINE FOR DEVELOPMENT OF HIGHER-VALUE OVICOLL™ COLLAGEN PRODUCTS**

CollTech will move quickly to capitalise on its strong IP by utilising funding from the recent capital raising, to meet the market opportunities identified for high value cosmetic and medical grade ovine-sourced collagen.

Newly appointed Chief Scientific Officer, Dr Deborah Cooper BSc MSc PhD, will play a key role in this program with her wealth of scientific knowledge and corporate experience in R&D, clinical manufacturing, regulatory affairs and quality assurance.

The Company is pleased with the progress in development work on its high value research grade collagen - OVICOLL™|R, with product expected to be available for marketing through large third party distribution channels by 2Q06. The OVICOLL™|R product will be a forerunner to the more highly refined medical-grade collagen - OVICOLL™|M.

These higher-value collagen products will enable CollTech to exploit the demand from large pharmaceutical and medical

device companies for a novel source of collagen to replace the bovine-sourced collagen that is currently used in a range of medical end-products and research applications. These products will also underpin CollTech’s long-term growth strategy to build strategic alliances with innovative partners to develop and commercialise collagen-based cosmetic products and medical devices that advance healthcare.

**Michael Pixley**  
CHIEF EXECUTIVE OFFICER



COOL

biomate

# Annual Financial Report for the Financial Year ended 30 June 2005

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## DIRECTORS' REPORT

Your directors present their report on Colltech Australia Limited ("Colltech" or "the company") for the financial year ended 30 June 2005.

### 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. During the past three years Mr Blakiston has also served as a director of the following other listed companies: Alcaston Mining NL (Alternate)\*, Aurora Oil & Gas Ltd\*, Australian Development Capital Ltd\*, Black Range Resources NL, Paladin Resources Ltd\*, Platinum Australia Ltd\*, Vulcan Resources Ltd\* & Rox Resources Ltd\*. (\* denotes current directorships).



**Dr Anna Kluczevska**  
*BDS*

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

**Experience:** Dr Kluczevska 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 is currently 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 the inventor of CollTech's novel collagen extraction process. After graduating as a PhD (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.

## DIRECTORS' REPORT

### Management



Mr Michael Pixley  
BBus

**Position:** Chief Executive Officer – (appointed 13 February 2004)

**Experience:** Over 20 years international corporate and management experience. Former merchant banker specialising in strategic corporate development, joint ventures & acquisitions. Managed expansion of ISO/GMP compliant contact lens manufacturer in Asia.



Mr Mathew Whyte  
CPA FCIS

**Position:** Company Secretary/ Chief Financial Officer (appointed 5 January 2004)

**Experience:** Over 10 years in financial management and corporate affairs of public listed companies. CPA and Fellow of Institute Corporate Secretaries.



Dr Leearne Hinch  
BSc BVMS MBA

**Position:** Chief Business Officer (appointed 29 November 2004)

**Experience:** Over 10 years sales, marketing and business development experience in the pharmaceutical, biotechnology and agricultural industries in Australia and overseas. Previously CMO in biotech and Sales & Marketing in pharma/animal health.



Dr Deborah Cooper  
BSc(Hons) MSc PhD

**Position:** Chief Scientific Officer (appointed 27 July 2005)

**Experience:** Over 10 years R&D experience in pharma/biotech and academia, including clinical manufacturing, regulatory affairs and Quality Assurance. Previously with tissue engineering Co's Clinical Cell Culture (C3) and Verigen Australia (subsidiary Genzyme).

## DIRECTORS' REPORT

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*Corporate Structure and Principal Activities*

CollTech is a company limited by shares that is incorporated and domiciled in Australia. The Company's business involves the production of collagen and other biomaterials 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.

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*Employees*

The Company employed 10 employees as at 30 June 2005 (2004:4 employees).

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*Operating and Financial Review**Financial results*

CollTech reported a net loss attributable to members of \$1,525,900 for the year ended 30 June 2005 (2004: \$948,264). The full year loss reflected \$470,382 in commissioning costs associated with the newly constructed collagen extraction facility. On an apportionment basis the Company attributes \$802,000 of its FY 2005 expenditure to research and development cost in relation to its OVICOLL™ ovine-sourced collagen products.

In September 2005 the Company raised \$2.27 million (net of fees) through a private placement and Share Purchase Plan (SPP) issued at 9.5 cents per share. The capital raising added to the Company's reported 30 June cash balance of \$1,609,211, with cash reserves totalling \$3.2 million at the conclusion of the SPP.

No dividend was paid or declared for the financial year.

*Operational review*

The Company's primary activity during the financial year has been the construction and commissioning of its collagen extraction facility at Collie WA (Collie Plant). The Collie Plant is strategically located approximately 2 hours south of Perth WA close to sheepskin supplies, low cost infrastructure and international shipping ports. CollTech took delivery of the newly constructed plant in March 2005 at a capital construction cost of \$2.7 million. The Collie Plant is being accredited to ISO and GMP international standards and will have a 'nameplate' capacity to produce at a rate of approximately 800+ skins per day.

The Collie Plant has an initial operational capacity of 400+ skins per day and is undergoing process improvements to enable production of its food and cosmetic grade collagens. The Company anticipates the commencement of commercial production in the earlier part of 4Q 2005 with sales contracts expected to be announced shortly thereafter. The first products released for sale will be the Company's OVICOLL™|G collagen targeted at the North Asian cosmetic market and OVICOLL™|F collagen for the food market. The Company expects to release its OVICOLL™|C collagen for the broader cosmetic market in 4Q05.

CollTech is implementing a preferred supplier program to ensure a consistent supply of high quality sheepskins. This program will supplement the Company's existing supply contract with Fletcher International Exports Pty Ltd for up to 800 skins per day and will target suppliers of traceable skins from younger sheep (lambs) which provide higher yields of monomeric soluble collagen important for cosmetic and medical applications.

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*Significant Events After Balance Date*

Since the end of the financial year CollTech has completed a capital raising of \$2.27 million (net of fees). The capital raising was conducted via a private placement of 13,157,898 ordinary shares at 9.5 cents per share to institutional and sophisticated investors and a Share Purchase Plan which resulted in the issue of 12,481,616 ordinary shares at 9.5 cents per share. The 25,639,514 ordinary shares allotted under the capital raising resulted in a 26.4% increase in the Company's issued ordinary shares to 122,639,514.

## DIRECTORS' REPORT

### *Significant Events After Balance Date (cont'd)*

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..

### *Significant Changes in State of Affairs*

Other than the matters raised above there were no significant changes in the state of affairs of the Company during the financial year.

### *Future Developments*

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

- i. CollTech is committed to establishing itself as a leading global supplier of high quality collagen biomaterials. The Company plans to capitalise on its strong intellectual property position over the novel extraction of collagen from ovine sources to target higher valued applications in research, cosmetic and medical end products.
- ii. These higher-value collagen products will enable CollTech to exploit the demand from large pharmaceutical and medical device companies for a novel source of collagen to replace the bovine-sourced collagen that is currently used in a range of medical end-products and research applications. These products will also underpin CollTech's long-term growth strategy to build strategic alliances with innovative partners to develop and commercialise collagen-based cosmetic products and medical devices.
- iii. 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.

### *Environmental Regulation & Performance*

During the financial year the Company conducted construction works for its collagen extraction facility (Plant facility) located at Lot 5 Boys Home Road, Collie WA in accordance with Works Approval Number 3879 as issued on 2 February 2004 by the Western Australian Department of Environmental Protection.

On 19 January 2005 CollTech was granted Operating Licence number 7998/1 (Licence) issued by the Western Australian Department of Environment as prescribed under the Environmental Protection Act 1986. The Licence relates to the Company's collagen processing plant and includes, but is not necessarily limited to collagen extraction and purification; wastewater storage; and wastewater disposal pipeline to the Collie Power Station disposal facility. During the financial year the Company's operations were materially conducted in accordance with the guidelines of that Licence.

During the financial year the Company commissioned and received an independent baseline environmental assessment of the leased Plant Facility site at Lot 5 Boys Town 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 significant environmental issues which have been raised in relation to the Company's operations.

## DIRECTORS' REPORT

*Meetings of Directors*

During the financial year, 12 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	12	12
Dr Anna Kluczevska	12	11
Dr John Snowden	12	12

*Interests in the shares and options of the Company*

Disclosures relating to directors' interests in the shares and options of CollTech have been included in Note 5 to the financial statements. No movements in directors' interests in the shares and options of CollTech have occurred between balance date and the date of this report.

*Remuneration Report*

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Employment Service agreements

**A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION**

The Remuneration Committee, on behalf of the Board of directors, monitors compensation of directors and executives of the Company.

Generally, compensation is provided by the Company to its directors and executives by way of base salary, superannuation and granting of employee options. The overall objective is to ensure that remuneration is fair and reasonable and sufficient to attract and retain qualified and experienced directors and executives.

The remuneration program for the directors and executives of the Company is designed to ensure that the level and form of remuneration achieves certain objectives, including:

- (a) attracting and retaining talented, qualified and effective directors and executives;
- (b) motivating their short and long-term performance; and
- (c) aligning their interests with those of the Company's shareholders.

Given the evolving nature of the Company's business, the Remuneration Committee continues to review and redesign the overall compensation plan for directors and executives so as to continue to address the objectives identified above.

## DIRECTORS' REPORT

### *Company Performance*

As the Company's primary activity during the past financial year, and in the period since listing on ASX in February 2004, has been the construction and commissioning of its collagen extraction facility at Collie WA the overall level of remuneration has not been structured to focus on the earnings of the Company. Into the future as the Company moves towards sales of its collagen products the Remuneration Committee will review and redesign the overall remuneration for its executive team to include performance based incentive schemes such as bonus payments for achievements of certain key performance indicators, commissions based on sales, and where appropriate bonus paid for successful commercialization of developed IP and Products.

The overall level of remuneration takes into account the growth in shareholder wealth of the Company via directors' and executive's participation in the Employee Share Option Plan.

### *Directors' Fees*

Each of the non-executive directors receives a fixed fee for their services as director. 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. In accordance with the Company's Constitution remuneration payable to executive directors shall not include a commission on or percentage of operating revenue. The remuneration of directors shall be deemed to accrue from day to day.

In addition, the Company's Constitution provides for additional remuneration to be paid if any of the directors are called upon to perform extra services or make any special exertions on behalf of the Company or the business of the Company. The directors may remunerate such director in accordance with such services or exertions, and such remuneration may be either in addition to or in substitution for the directors' fees referred to above.

### *Base Salary*

The first step to attracting and retaining talented, qualified and effective directors and executives is paying base salaries which are competitive in the markets in which the Company operates and in the context of prevailing market conditions. Competitive salary information is compiled from a variety of sources, including surveys conducted by independent consultants and national and international publications and the assistance of external consultants are used where necessary.

The Remuneration Committee is responsible for assessing base salaries and will take into account, amongst other things, the progress of the Company in meeting its objectives, the financial performance of the Company, and the growth in market capitalisation.

## DIRECTORS' REPORT

*Share-based Compensation*

The Company believes that encouraging its directors and executives to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's Employee Share Option Plan.

The Company has adopted the CollTech Employee Share Option Plan for the purpose of recognising the efforts of, and providing incentives to, employees of the Company. Options are granted under the Employee Share Option Plan for no consideration. Options are granted for a three year period and entitlements to the options are vested and made exercisable in defined tranches to reflect the Company's development strategy and align the interests of directors and executives to those of shareholders. Options are granted to directors and executives taking into account a number of factors, including the amount and term of options previously granted, base salary and competitive factors.

No options were granted to directors during or since the financial year ended 30 June 2005. Details of Options held by directors is contained in Note 5 to the attached financial statements.

**B DETAILS OF REMUNERATION (THIS INFORMATION HAS BEEN AUDITED)**

Details of the remuneration of each specified director and executive are set out in the following tables.

Table 1: Directors' remuneration for year ended 30 June 2005

	Year	Primary				Equity	Other	Total
		Salary, Fees & Commissions	Super -annuation	Cash Bonus	Non-Cash Benefits	Options		
		\$	\$	\$	\$	\$		
<b>Mr Michael Blakiston</b>	2005	65,000	5,850	0	0	0	0	70,850
	2004	21,667	1,950	0	0	153,000	0	176,617
<b>Dr Anna Kluczevska</b>	2005	25,000	2,250	0	0	22,185	0	49,435
	2004	8,333	750	0	0	44,370	0	53,453
<b>Dr John Snowden</b>	2005	25,000	2,250	0	0	0	0	27,250
	2004	8,333	750	0	0	295,800	0	304,883
Past directors who held office during the year ended 30 June 2004 :								
<b>Mr Michael Pixley <sup>(1)</sup></b>	2004	27,792	29,067	0	0	0	0	56,859
<b>Dr David Kennedy <sup>(2)</sup></b>	2004	120,615	3,600	0	0	0	0	124,215
<b>Mrs Nadine Donovan</b>	2004	0	0	0	0	0	0	0
<b>Mr Anthony Kain</b>	2004	0	0	0	0	0	0	0
		186,740	36,117	0	0	493,170	0	716,027

(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.

# 03 ANNUAL FINANCIAL REPORT

## DIRECTORS' REPORT

Table 2: Executives' remuneration for year ended 30 June 2005

	Year	Primary				Equity Options	Other	Total
		Salary, Fees & Commissions	Super -annuation	Cash Bonus	Non-Cash Benefits			
		\$	\$	\$	\$			
Mr Michael Pixley	2005	80,000	7,200	0	0	0	0	87,200
Dr David Kennedy	2005	120,664	10,860	0	0	0	0	131,524
Dr Leearne Hinch	2005	88,750	7,988	0	0	1,040	0	97,778
Mr Mathew Whyte	2005	111,500	11,150	0	0	0	0	122,650
	2004*	56,322	4,655	0	0	74	0	61,051

\*During the year ended 30 June 2004 Mr Whyte was the only executive (other than executive directors as disclosed in Table 1) employed by the Company.

No proportion of the above directors' and executives' remuneration was related to the performance of the Company. The remuneration committee is currently considering the implementation of a scheme for performance-based remuneration for executives, which incorporates long and short term incentives.

Table 3: Options granted as part of remuneration for the year ended 30 June 2005

	Terms & Conditions For Each Grant								
	Grant Date	Grant Number	Vested Number during Year ended 30 June 05	Fair value per Option at Grant Date*	Exercise Price	Exercised Number	Value per Option at Exercise Date	Value at date option lapsed	% of remuneration
Dr Leearne Hinch <sup>(1)</sup>	24/02/05	650,000	130,000	\$0.008	\$0.25	N/A	N/A	N/A	1.1%

(1) Options granted to Dr Hinch are vested as noted below.

\*Fair values of Options granted as part of senior management remuneration have been valued using a Black-Scholes option pricing model, which takes into account a number of factors including the Option exercise price, the current level and volatility of the underlying share price, the share price at grant date, the risk-free interest rate and expected life of the Option. See below for further details.

The model inputs for each of these Options included:

- Options are granted for no consideration, and vest as follows:
  - 130,000 on date of grant;
  - 260,000 12 months after (i) above; and
  - 260,000 12 months after (ii) above.
  - If Dr Hinch 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 Dr Hinch ceases to be an employee. All options expire 3 years from the date of grant.
- Exercise price: \$0.25
- Share price at grant date 24 February 2005: \$0.19
- Risk free interest rate: 6%
- Expected price volatility of the Company's shares: 14.8%
- Discount for lack of transferability and marketability: 30%

## DIRECTORS' REPORT

*C EMPLOYMENT SERVICE AGREEMENTS*

The CEO Mr Pixley, is employed under contract. The current employment agreement (Agreement) commenced on 13 February 2004 and continues:

- (i) In the case of his appointment as the CEO of the Company, until he resigns, retires or is removed by a resolution of the Company's shareholders; and
- (ii) In the case of his employment under his Agreement until the Agreement is terminated in accordance with certain prescriptive events including that either CollTech or Mr Pixley may terminate the Agreement on 3 months notice to the other or in the case of the Company, paying salary in lieu of notice.

The CFO Mr Whyte is employed under contract. The current employment agreement (Agreement) commenced on 19 September 2005 and terminates on 19 September 2007, at which time the Company may choose to commence negotiation to enter into a new employment contract with Mr Whyte. Under the terms of the present contract:

- (i) Mr Whyte may resign from his position and thus terminate this Agreement by giving 6 months' written notice. 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.
- (ii) The Company may terminate this Agreement without cause by providing 6 months' written notice or provide payment in lieu of the notice period. On termination the Company will also provide the employee with 4 weeks redundancy for every year employed. On termination on notice by the Company, any options that have vested or will vest during the notice period will be released. Options that have not vested will be forfeited.
- (iii) The Company may terminate the Agreement at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Whyte is only entitled to entitlements up to the date of termination and any unvested options will immediately be forfeited.

The Chief Business Officer (CBO) Dr Hinch, is employed under contract. The current employment agreement (Agreement) commenced on 29 November 2004 and terminates on 29 November 2006, at which time the Company may choose to commence negotiation to enter into a new employment contract with Dr Hinch. Under the terms of the present contract:

- (i) Dr Hinch may resign from her position and thus terminate this Agreement by giving 6 months' written notice. If Dr Hinch 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 Dr Hinch ceases to be an employee.
- (ii) The Company may terminate this Agreement without cause by providing 6 months' written notice or provide payment in lieu of the notice period. On termination the Company will also provide the employee with 4 weeks redundancy for every year employed. On termination on notice by the Company, any options that have vested or will vest during the notice period will be released. Options that have not vested will be forfeited.
- (iii) The Company may terminate the Agreement at any time without notice if serious misconduct has occurred. Where termination with cause occurs Dr Hinch is only entitled to entitlements up to the date of termination and any unvested options will immediately be forfeited.

## DIRECTORS' REPORT

### *Indemnification and Insurance of Directors and Officers*

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The Company has entered into Deeds of Indemnity, Access and Insurance for Mr M Blakiston, Dr A Kluczevska 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.

During or since the financial year, the Company has paid premiums of \$13,564 and stamp duty and GST of \$2,848 in respect of 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.

### *Share Options*

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At the date of this report and as at the reporting date, there were 13,010,000 unissued ordinary shares under options. Refer to Note 15 ( c ) of the financial statements for further details of the options outstanding.

### *Corporate Governance*

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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*

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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.

### *Auditor Independence*

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A copy of the auditors' independence declaration for the year ended 30 June 2005, as required under Section 307C of the Corporations Act 2001, has been received and can be found on page 8 of the directors' report.

## DIRECTORS' REPORT

*Non-Audit Services*

The following non-audit services were provided by the company's auditors, HLB Mann Judd. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

HLB Mann Judd received or are due to receive the following amounts for the provision of non-audit services:

Assistance with financial reporting disclosures \$1,575

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

**Mr Michael Blakiston**

Director

Dated this 29<sup>th</sup> day of September 2005.

## AUDITORS' INDEPENDENCE DECLARATION



### Auditors' Independence Declaration

As lead auditor for the audit of the financial report of CollTech Australia Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of CollTech Australia Limited.

Perth, Western Australia  
29 September 2005

L DI GIALLONARDO  
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)  
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Partners: Ian H Bardsen, Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

## CORPORATE GOVERNANCE STATEMENT

### STATEMENT

During the financial year CollTech has continued to operate in accordance with systems of control and accountability which the Company has previously adopted as the basis for the administration of corporate governance. This report sets out the key corporate governance practices of the Company during the financial year, providing disclosure to the extent recommended by the ASX in accordance with its "Principles of Good Corporate Governance and Best Practice Recommendations" (the "ASX Guidelines").

Commensurate with the spirit of the ASX Guidelines, the Company has followed each of the 28 Recommendations to the extent the Board considered that their implementation was practicable and likely to genuinely improve the Company's internal processes and accountability to external stakeholders. To the extent that the Company has adopted a practice that differs from the recommendations, disclosure is made of the Company's practice, and how that practice embraces the ASX Principles.

Additional information about the Company's corporate governance practices, including disclosure of the various charters, policies and procedures which form the Company's corporate governance framework, is set out on the Company's website at [www.colltech.com.au](http://www.colltech.com.au).

### EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

Prior to the commencement of the financial year, the Company adopted comprehensive systems and documentation for the administration of corporate governance. Therefore, as at the end of the financial year, there are few recommendations of the ASX that the Company does not follow. These are in relation to subcommittees of the Board. Given the Board comprises three directors only, the Board did not consider that any efficiencies would be gained by forming subcommittees. Explanations are offered below:

#### *Principle 2 Recommendation 2.4: The Board should establish a Nomination Committee*

##### **Notification of Departure:**

There is no nomination sub-committee.

##### **Explanation for Departure:**

The full Board considers those matters that would usually be the responsibility of a nomination committee. Given that the Board comprises only three directors, the Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee. The Board has adopted a Nomination Committee Charter, which it applies when convening as the nomination committee. While the charter provides for the Board to meet at least annually as the nomination committee, in practice the Board discusses nomination-related matters from time to time as required. This results in more than one meeting annually where these matters are discussed.

#### *Principle 4 Recommendation 4.2: The Board should establish an Audit Committee*

##### **Notification of Departure:**

A separate audit committee has not been formed.

##### **Explanation for Departure:**

The full Board carries out the role of the audit committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate audit committee. The Board has adopted an Audit Committee Charter, which it applies when convening as the audit committee. The Board convenes as the audit committee separate from regular meetings of the Board. As no directors perform an executive role within the Company, or are involved with the preparation of the Company's accounts, the full Board is considered to be an appropriate mechanism to ensure the integrity of the accounts.

## CORPORATE GOVERNANCE STATEMENT

*Principle 9 Recommendation 9.2: The Board should establish a Remuneration Committee*

**Notification of Departure:**

A separate remuneration committee has not been formed.

**Explanation for Departure:**

Given that the Board comprises only three directors, the Board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee. However, similarly to its approach to nomination-related matters, the Board has adopted a Remuneration Committee Charter, which it applies when convening as the remuneration committee. While the charter provides for the Board to meet at least annually as the remuneration committee, in practice the Board discusses director and executive remuneration from time to time as required. This results in more than one meeting annually where these matters are discussed.

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

These details are contained in the Directors' Report.

### *IDENTIFICATION OF INDEPENDENT DIRECTORS*

In considering independence of directors, the Board refers to the criteria for independence as recommended by the ASX. To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Statement of Board and Management Functions, which is disclosed in full on the Company's website.

Applying the independence criteria, the independent directors of the Company are Michael Blakiston and Anna Kluczevska.

In the interests of disclosure, Mr Blakiston is a principal of the firm Blakiston & Crabb, which 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. Similarly, through her consultancy company Integrin Consulting, Dr Kluczevska has provided expertise and know-how in relation to the Company's business in the past, which services were provided at normal commercial rates. Since balance date, Dr Kluczevska's Consultancy Agreement has been terminated.

Notwithstanding the relationships between each of Mr Blakiston and Dr Kluczevska and the Company, the Company considers that in neither case relevant materiality thresholds are exceeded, and neither Mr Blakiston nor Dr Kluczevska are impeded from exercising independent judgment in their roles as directors.

### *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.

### *AUDIT COMMITTEE MEMBERS AND MEETINGS*

The full Board meets as the Audit Committee. All directors are financially literate by virtue of their industry or business experience. While none possess "financial expertise" as recommended by the ASX, members of the executive attend audit committee meetings by invitation and are available to respond to queries arising in relation to the accounts. The Board has the opportunity to meet separately with the external auditor without management present, to the extent this is considered necessary.

## CORPORATE GOVERNANCE STATEMENT

## NUMBER OF BOARD MEETINGS CONVENED AS AUDIT COMMITTEE MEETINGS AND NAMES OF ATTENDEES

	Number of meetings held	Number of meetings attended
Mr Michael Blakiston	3	3
Dr Anna Kluczevska	3	3
Dr John Snowden	3	3

The CEO and the CFO, as well as the external auditor, attended all meetings by invitation.

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

During the financial year an evaluation of the Board and its members was carried out. This included the preparation and completion of a questionnaire to Board members and then a review of the findings arising from the replies received.

#### *NOMINATION COMMITTEE*

The full Board carries out the role of the nomination committee. The full Board met formally once as the nomination committee at the end of the Reporting Period, however nomination-related discussions also occurred from time to time during the year as required. All directors stood for re-election at the end of the last financial year. No casual vacancies arose during the year.

#### *REMUNERATION COMMITTEE*

The full Board carries out the role of the remuneration committee. The full Board discussed remuneration from time to time during the Reporting Period as required. These discussions included setting the remuneration of the Chief Business Officer, who was appointed during the Reporting Period, and the granting of options to staff.

#### *REMUNERATION POLICY*

Details of remuneration, including the Company's remuneration practices, are contained in the "Remuneration Report" which forms part of the Directors' Report.

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
Revenues from ordinary activities	2	179,925	218,153
Depreciation expense	3	(87,533)	(9,091)
Borrowing costs expense	3	(57,413)	(1,218)
Other expenses from ordinary activities	3	(1,668,149)	(1,192,432)
Loss from ordinary activities before income tax benefit		(1,633,170)	(984,588)
Income tax benefit relating to ordinary activities	4	107,270	36,324
Loss from ordinary activities after related income tax benefit		(1,525,900)	(948,264)
Net loss attributable to members of the parent entity	16	(1,525,900)	(948,264)
Total changes in equity other than those resulting from transactions with owners as owners		(1,525,900)	(948,264)
Basic loss per share (cents per share)	7	(1.57 cents)	(1.38 cents)

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

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	2005 \$	2004 \$
<b>CURRENT ASSETS</b>			
Cash assets	8	1,120,624	4,376,202
Receivables	9	0	47,526
Other	10	36,928	12,053
<b>TOTAL CURRENT ASSETS</b>		<b>1,157,552</b>	<b>4,435,781</b>
<b>NON-CURRENT ASSETS</b>			
Cash assets	8	488,587	0
Property, plant and equipment	11	2,681,089	288,531
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,169,676</b>	<b>288,531</b>
<b>TOTAL ASSETS</b>		<b>4,327,228</b>	<b>4,724,312</b>
<b>CURRENT LIABILITIES</b>			
Payables	12	380,426	190,847
Interest-bearing liabilities	13	184,415	16,052
Provisions	14	17,065	5,174
<b>TOTAL CURRENT LIABILITIES</b>		<b>581,906</b>	<b>212,073</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing liabilities	13	772,088	13,105
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>772,088</b>	<b>13,105</b>
<b>TOTAL LIABILITIES</b>		<b>1,353,994</b>	<b>225,178</b>
<b>NET ASSETS</b>		<b>2,973,234</b>	<b>4,499,134</b>
<b>EQUITY</b>			
Contributed equity	15	5,587,773	5,587,773
Accumulated losses	16	(2,614,539)	(1,088,639)
Parent entity interest		2,973,234	4,499,134
<b>TOTAL EQUITY</b>		<b>2,973,234</b>	<b>4,499,134</b>

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		23,514	117,433
Payments to suppliers and employees		(1,228,324)	(773,932)
Interest received		152,411	113,153
Borrowing costs		(55,238)	(1,218)
Income tax received		107,270	36,324
Net cash used in operating activities	19(a)	(1,000,367)	(508,240)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,675,747)	(144,907)
Net cash used in investing activities		(1,675,747)	(144,907)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		0	5,000,000
Costs of share issue		0	(362,227)
Repayment of borrowings		(90,877)	(3,773)
Net cash provided by financing activities		(90,877)	4,634,000
Net increase in cash held		(2,766,991)	3,980,853
Cash at the beginning of the financial year		4,376,202	395,349
Cash at the end of the financial year	8	1,609,211	4,376,202

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### *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/benefit is based on the profit/loss 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/loss 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 is 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.

##### Plant and equipment

Plant and equipment are measured on the cost basis.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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

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/loss 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/loss from ordinary activities as they arise.

#### (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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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

**(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.

**(j) Leases**

Payments in respect of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit/loss as lease payments are made. The Company's operating leases comprise a lease for office premises and the Collie extraction facility site.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 2: REVENUE

	2005 \$	2004 \$
Operating activities		
– Interest received on deposits	158,811	113,153
– Grant - Biotechnology Innovation Fund	0	105,000
– Grant - Export Market Development	21,114	0
Total Revenue	179,925	218,153

### NOTE 3: LOSS FROM ORDINARY ACTIVITIES

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

Borrowing costs:		
– Other persons	9,201	350
– Interest expense	48,212	868
Total borrowing costs	57,413	1,218
Depreciation of non-current assets:		
– Property, Plant and equipment	87,533	9,091
Total depreciation	87,533	9,091
Other Expenses from Ordinary Activities:		
Significant Item: Write-down of investment in Jessains Pty Ltd (Note 24)	0	449,998
Operating expenses - Collie extraction facility	470,382	0
Auditors' remuneration (Note 6)	27,400	11,300
Rent & office leasehold improvements	61,865	19,431
Public company administration	188,597	54,085
Travel and accommodation	30,126	30,050
Executive payroll	490,762	154,024
Consultancy and professional services	256,165	398,336
Other expenses	142,852	75,208
Total Other Expenses From Ordinary Activities	1,668,149	1,192,432

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 4: INCOME TAX BENEFIT

	2005 \$	2004 \$
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% (2004: 30%)	(489,951)	(295,376)
Add:		
Tax effect of:		
– non-deductible write-down of investment	0	134,999
– other non-allowable items	385	13,594
R & D tax offset refunded in the current year	(107,270)	(36,324)
	(596,836)	(183,107)
Benefit of income tax losses not brought to account	489,566	146,783
Income tax benefit attributable to loss from ordinary activities	(107,270)	(36,324)
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	641,520	151,954

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 2005

### NOTE 5: DIRECTOR AND EXECUTIVE DISCLOSURES

(a) The Company has applied the exemption under Corporations Amendments Regulation 2005 which exempts listed companies from providing remuneration disclosures in relation to directors and executives in the Financial Report by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

(b) Shareholdings

Number of shares held by Specified Directors and Specified Executives

	Balance 1.7.04	Received as Remuneration	Options Exercised	Net Change Other	Balance 30.6.05
Specified Directors					
Dr John Snowden <sup>(1)</sup>	7,200,000	0	0	0	7,200,000
Dr Anna Kluczewska <sup>(2)</sup>	132,600	0	0	0	132,600
Specified Executives					
Mr Michael Pixley <sup>(1)</sup>	6,600,000	0	0	0	6,600,000
Mr Mathew Whyte <sup>(2)</sup>	75,000	0	0	0	75,000
Dr Leeearne Hinch <sup>(2)</sup>	0	0	0	350,000	350,000
<b>Total</b>	<b>14,007,600</b>	<b>0</b>	<b>0</b>	<b>350,000</b>	<b>14,357,600</b>

(1) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 5: DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

#### (c) Option Holdings

Number of options held by Specified Directors & Executives

	Balance 1.7.04	Granted as Remuneration	Options Exercised	Net Change Other*	Balance 30.6.05	Total Vested as at 30.6.05	Total Exercisable	Total Unexercisable
<i>Specified Directors</i>								
Mr Michael Blakiston	1,500,000	0	0	0	1,500,000	1,500,000	0	1,500,000
Dr Anna Kluczevska*	870,000	0	0	0	870,000	652,500	0	870,000
Dr John Snowden*	2,900,000	0	0	0	2,900,000	2,900,000	0	2,900,000
<i>Specified Executives</i>								
Mr Michael Pixley *	2,900,000	0	0	0	2,900,000	2,900,000	0	2,900,000
Mr Mathew Whyte	650,000	0	0	0	650,000	130,000	130,000	520,000
Dr Learne Hinch	0	650,000	0	0	650,000	130,000	130,000	520,000
<b>Total</b>	<b>8,820,000</b>	<b>650,000</b>	<b>0</b>	<b>0</b>	<b>9,470,000</b>	<b>8,212,500</b>	<b>260,000</b>	<b>9,210,000</b>

\* Options are unlisted and escrowed for a period of 24 months commencing 13 February 2004.

#### (d) Shares Issued on Exercise of Remuneration Options

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

# 03 ANNUAL FINANCIAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 6: AUDITORS' REMUNERATION

	2005 \$	2004 \$
Remuneration of the auditor of the company for:		
– auditing or reviewing the financial report	25,825	11,300
– other services - assisting with financial reporting disclosures	1,575	0
	<u>27,400</u>	<u>11,300</u>

### NOTE 7: EARNINGS PER SHARE

(a) Reconciliation of earnings to net loss		
Net loss	(1,525,900)	(948,264)
Earnings used in the calculation of basic and dilutive EPS	(1,525,900)	(948,264)
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS	97,000,000	68,910,685
(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

	\$	\$
<b>Current</b>		
Cash at bank	917,654	26,258
Deposits at call	0	4,349,944
Security deposits*	202,970	0
	<u>1,120,624</u>	<u>4,376,202</u>
<b>Non-Current</b>		
Security deposits*	<u>488,587</u>	0

\* Represents the balance of term deposits held as security in relation to hire purchase liabilities entered into during the year with National Australia Bank.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 9: RECEIVABLES

	2005 \$	2004 \$
<b>CURRENT</b>		
GST Receivable	0	47,526

### NOTE 10: OTHER ASSETS

<b>CURRENT</b>		
Prepayments	36,928	12,053

### NOTE 11: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at cost	2,778,203	49,140
Less Accumulated depreciation	(97,114)	(9,580)
	2,681,089	39,560
Plant and equipment under construction	0	248,971
	2,681,089	288,531

#### Movements in Carrying Amounts:

	Total \$
Balance at the beginning of the year	288,531
Additions	2,480,091
Disposals	0
Depreciation expense	(87,533)
Carrying amount at the end of the year	2,681,089

### NOTE 12: PAYABLES

<b>CURRENT</b>		
Trade & other creditors and accruals	380,426	190,847

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 13: INTEREST BEARING LIABILITIES

	2005 \$	2004 \$
<b>CURRENT</b>		
Insurance Premium Funding- Note 17(a)	29,988	0
Hire purchase liability - Note 17(a)	154,427	16,052
	184,415	16,052
<b>NON-CURRENT</b>		
Hire purchase liability - Note 17(a)	772,088	13,105

### NOTE 14: PROVISIONS

<b>CURRENT</b>		
Employee entitlements	17,065	5,174
Aggregate employee benefits liability	17,065	5,174
	No. 10	No. 3
Number of employees at balance date		

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 15: CONTRIBUTED EQUITY

<b>(a) Issued and paid up capital</b>		
97,000,000 (2004: 97,000,000) fully paid ordinary shares	5,587,773	5,587,773

	2005		2004	
	Number of Shares	\$	Number of Shares	\$
<b>(b) Movements in shares on issue</b>				
Balance at the beginning of the financial year	97,000,000	5,587,773	54,000,000	500,000
Shares issued during year:				
– 4 for 5 consolidation of share capital	0	0	(10,800,000)	0
– Acquisition of Jessains Pty Ltd pursuant to sale and purchase agreement	0	0	10,000,000	450,000
– Issue to Permanent Trustees Australia as trustee for Australian Development Capital Fund pursuant to Surrender Agreement	0	0	18,800,000	846,000
– Surrender of right pursuant to Surrender Agreement being a direct cost of issue	0	0	0	(846,000)
– Issue of 25 million shares at 20 cents pursuant to Prospectus	0	0	25,000,000	5,000,000
– Capital raising costs of the issue	0	0	0	(362,227)
Balance at the end of the financial year	97,000,000	5,587,773	97,000,000	5,587,773

#### (c) Share Options

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

###### *650,000 Unlisted Options Expiring 24 February 2008*

*On 24 February 2005, 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 3 years from date of grant. The options have an exercise price of \$0.25 each.*

###### *640,000 Unlisted Options Expiring 25 February 2008*

*On 25 February 2005, 640,000 options over ordinary shares were granted to five (5) employees engaged at the Company's collagen extraction facility in Collie WA. The options are 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 \$0.25 each.*

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

###### *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 2005

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

#### Options over ordinary shares issued during the previous financial year and outstanding at balance date (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

	2005 \$	2004 \$
Accumulated losses at the beginning of the financial year	(1,088,639)	(140,375)
Net loss attributable to the members of the parent entity	(1,525,900)	(948,264)
Accumulated losses at the end of the financial year	<u>(2,614,539)</u>	<u>(1,088,639)</u>

### NOTE 17: HIRE PURCHASE, LEASING AND CAPITAL EXPENDITURE COMMITMENTS

(a) Hire Purchase Commitments Payable		
– not later than 1 year	223,499	18,190
– later than 1 year but not later than 5 years	911,564	13,643
– later than 5 years	0	0
Minimum hire purchase payments	1,135,063	31,833
Less future finance charges	(208,548)	(2,676)
Total Hire Purchase Liability	<u>926,515</u>	<u>29,157</u>
Included in the financial statements as follows:		
Current liability (Note 13)	154,427	16,052
Non-current liability (Note 13)	772,088	13,105
	<u>926,515</u>	<u>29,157</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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

#### (b) Operating Lease Commitments

Commitments for minimum payments in relation to non-cancellable operating leases for rental of office premises and the Collie extraction facility site are payable as follows:

– not later than 1 year	58,374	0
– later than 1 year but not later than 5 years	128,546	0
– later than 5 years	114,971	0
	<u>301,891</u>	<u>0</u>

#### (c) Capital Expenditure Commitments

Capital expenditure commitments contracted for at balance date:

	2005 \$	2004 \$
– Plant and equipment purchases	0	636,346
– Capital expenditure projects	0	1,110,000
	<u>0</u>	<u>1,746,346</u>

#### Payable

– not later than 1 year	0	1,746,346
– later than 1 year but not later than 5 years	0	0
– later than 5 years	0	0
	<u>0</u>	<u>1,746,346</u>

### 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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 19: CASH FLOW INFORMATION

(a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax		
Loss from ordinary activities after income tax	(1,525,900)	(948,264)
Non-cash flows in loss from ordinary activities:		
Depreciation	87,533	9,091
Write-down of investment in Jessains Pty Ltd (Note 24)	0	449,998
Changes in operating assets and liabilities:		
Increase/(decrease) in receivables	(24,876)	(12,053)
(Increase)/decrease in trade creditors and borrowing	444,456	36,749
Increase/(decrease) in GST payable	6,529	(48,935)
Increase/(decrease) in provisions	11,891	5,174
Net cash used in operating activities	(1,000,367)	(508,240)
(b) Non-cash Financing and Investing Activities		
During the year the Company acquired plant and equipment with an aggregate value of \$988,236 (2004: \$31,832) by means of hire purchase. These acquisitions are not reflected in the Statement of Cash Flows.		

### NOTE 20: EMPLOYEE BENEFITS

#### Employee Share Option Arrangements

(a) On 24 February 2005, 650,000 options over ordinary shares were granted to an executive exercisable at various times (Refer Note 5 (c)) prior to their expiry date being 3 years from date of grant. The options have an exercise price of \$0.25 each

(b) On 25 February 2005, 640,000 options over ordinary shares were granted to five (5) employees engaged at the Company's collagen extraction facility in Collie WA. The options are exercisable at various times prior to their expiry date being 3 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 2005 was 12.5 cents (30 June 2004: 14.5 cents).

	2005 No.	2004 No.
Movement in the number of share options held by employees (including directors) and granted as remuneration are as follows:		
Opening balance	5,920,000	0
Granted during the year	1,290,000	5,920,000
Exercised during the year	0	0
Lapsed during the year	0	0
Closing Balance	7,210,000	5,920,000

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### NOTE 20: EMPLOYEE BENEFITS (cont'd)

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		
1/12/03	1/12/06	\$0.20	5,270,000	5,270,000
28/05/04	28/05/09	\$0.25	650,000	650,000
24/02/05	24/02/08	\$0.25	650,000	0
25/02/05	25/02/08	\$0.25	650,000	0
<b>Total Outstanding as at balance date</b>			<b>7,210,000</b>	<b>5,920,000</b>

### NOTE 21: EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year CollTech has completed a capital raising of \$2.27 million (net of fees). The capital raising was conducted via a private placement of 13,157,898 ordinary shares at 9.5 cents per share to institutional and sophisticated investors and a Share Purchase Plan which resulted in the issue of 12,481,616 ordinary shares at 9.5 cents per share. The 25,639,514 ordinary shares allotted under the capital raising resulted in a 26.4% increase in the Company's issued ordinary shares to 122,639,514.

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.

### 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 the Directors' Report under the section titled "Remuneration Report".

##### 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 \$16,252 (excluding GST) (2004:\$82,354).
- (b) Since balance date the Company has terminated its Consultancy Agreement with Integrin Consulting and Dr Kluczewska. No consultancy fees (2004:\$26,700) were paid to Integrin Consulting during the financial year.
- (c) The Company has a Consultancy Agreement with Dr John Snowden. 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 \$50,270 (excluding GST) (2004:\$57,000).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 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 Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing						Non-interest Bearing		Total	
	2005	2004	2005	2004	Within Year		1 to 5 Years		Over 5 Years		2005	2004	2005	2004
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial Assets:</b>														
Cash	5.2	5.0	1,609,211	4,376,202	0	0	0	0	0	0	0	0	1,609,211	4,376,202
Receivables	0	0	0	0	0	0	0	0	0	0	0	47,526	0	47,526
<b>Total Financial Assets</b>			<b>1,609,211</b>	<b>4,376,202</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>47,526</b>	<b>1,609,211</b>	<b>4,423,728</b>
<b>Financial Liabilities:</b>														
Payables	0	0	0	0	0	0	0	0	0	0	380,426	190,847	380,426	190,847
Hire purchase liabilities	9.75	9.75	0	0	184,415	16,052	772,088	13,105	0	0	0	0	956,503	29,157
<b>Total Financial Liabilities</b>			<b>0</b>	<b>0</b>	<b>184,415</b>	<b>16,052</b>	<b>772,088</b>	<b>13,105</b>	<b>0</b>	<b>0</b>	<b>380,426</b>	<b>190,847</b>	<b>1,336,929</b>	<b>220,004</b>

#### (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 2005

### *NOTE 24: CONTROLLED ENTITIES*

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#### Controlled Entity Gained & Disposed Of

Prior Period Disclosure: 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 in the year then ended.

### *NOTE 25: COMPANY DETAILS*

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

**Ground Floor, 76 Kings Park Road, West Perth, WA 6005**

### *NOTE 26: ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS.*

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Colltech Australia Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ending 30 June 2006. This requires the production of accounting data for future comparative purposes at the beginning of the financial year ended 30 June 2005, and particularly the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, CollTech's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when CollTech prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on the net profit/ loss for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the Company; (b) potential amendments to AIFRSs and interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

*NOTE 26: ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)*

**(a) Reconciliation of equity as presented under AGAAP to that under AIFRS**

	Notes	30 June 2005	1 July 2004 (date of transition)
Total equity under AGAAP		2,973,234	4,499,134
Adjustment to retained earnings (net of tax)			
Recognition of equity-based compensation expense	3		
- Effect on accumulated losses		(23,225)	(197,448)
- Effect on reserves		23,225	197,448
Total equity under AIFRS		<u>2,973,234</u>	<u>4,499,134</u>

**(b) Reconciliation of net profit/ loss under AGAAP to that under AIFRS**

	Notes	Year Ended 30 June 2005
Net profit (loss) as reported under AGAAP		(1,525,900)
Recognition of equity-based compensation expense	3	(23,225)
Net profit/ (loss) under AIFRS		<u>(1,549,125)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### *NOTE 26: ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)*

#### Notes

1. Taxation: - Under AIFRS, tax assets and liabilities are recognised using the balance sheet approach rather than an income statement approach. In addition, tax assets are recognised 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 recognised directly in equity. However management does not believe that there is any material impact arising from this change on the Company's net equity as at 30 June 2005 or on the result for the year then ended.
2. 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 asset's use 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. However management does not believe that there is any material impact arising from this change on the Company's net equity as at 30 June 2005 or on the result for the year then ended.
3. Equity-based compensation benefits: - Under AASB 2 "Share Based Payment", the Company would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payment costs are not recognised under AGAAP.

## DIRECTORS' DECLARATION

1. In the opinion of the directors of the Company :

- (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
  - (i) Giving a true and fair view of the Company's financial position as at 30 June 2005 and of the performance for the year ended on that date; and
  - (ii) Comply with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2005.

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

**Mr Michael Blakiston**  
Director

Dated this 29th day of September 2005.

## INDEPENDENT AUDIT REPORT

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**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 2005.

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 and the Corporations Act 2001.

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration dated 28 September 2005 given to the Directors by the lead auditor for the audit. That Declaration would be in the same terms if it had been given to the Directors at the time this audit report was made.

**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 2005 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

Perth, Western Australia  
29 September 2005

**L DI GIALONARDO**  
Partner

HLB Mann Judd (WA Partnership)  
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Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of International and the HLB Mann Judd National Association of Independent accounting firms

## 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 19 September 2005 :

### 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	111	33,082	0.02
1,001 - 5,000	75	247,063	0.20
5,001 - 10,000	114	1,002,225	0.81
10,001 - 100,000	599	27,447,007	22.4
100,001 - and over	185	93,910,138	76.57
	<u>1,084</u>	<u>122,639,515</u>	<u>100%</u>

b. The number of shareholdings of Ordinary Shares held in less than marketable parcels is 4,167 representing 165 holders and 177,310 shares.

c. 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%
Challenger Financial Services Group Limited	6,842,106	6.30%

#### d. 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

### e. 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	5.87
2. JP Morgan Nominees Australia Ltd	6,842,106	5.58
3. IRSS Nominees (21) Limited	6,600,000	5.38
4. Lifescience Investment Group Inc	6,600,000	5.38
5. Aymon Pacific Pty Ltd <Jerezos Discretionary a/c>	3,500,000	2.85
6. Weighbridge Trust Limited	3,350,000	2.73
7. Australian Development Capital Limited	2,318,249	1.89
8. Gwynvill Trading Pty Limited	1,786,841	1.46
9. Oaktone Nominees Pty Ltd	1,650,000	1.35
10. Bror Joel Runo Nessen	1,500,000	1.22
11. Mrs Katrina Lee Burton	1,486,841	1.21
12. Fairview Holdings Pty Ltd	1,236,841	1.01
13. Mr Kenneth John Kohen and Mrs Anne Marie Kohen <Super Fund Account>	1,146,924	0.94
14. Tricom Nominees Ltd <Nominess A/c>	1,137,000	0.93
15. Mr Gavin John Kohen	1,101,350	0.90
16. Fairview Holdings Pty Ltd<The Manjule Super A/c>	1,036,841	0.85
17. HSBC Custody Nominees (Australia) Ltd	1,000,000	0.82
18. Mere View Investments Ltd	968,900	0.79
19. Fiori Pty Ltd	956,841	0.78
20. Mr Geoffrey Mark Cottle	938,025	0.76
Top 20 holders of ORDINARY SHARES (GROUPED) As at 19th September 2005	52,356,759	42.70

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

### f. 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
(i) Ordinary Shares, restricted 24 months from date of official quotation on ASX (13/2/2004).	23,754,001	13 February 2006
(ii) 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
(iii) 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 Ground Floor, 76 Kings Park Road, West Perth Western Australia. Telephone +618 9426 3900.

4. Registers of securities are held at the following address:

Computershare Investor Services Pty Ltd, Level 2, 45 St Georges Terrace, Perth, Western Australia, 6000. Telephone +618 9323 2000.

5. Stock Exchange Listing

Quotation has been granted for the Ordinary Shares (CAU) 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 and since raised 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 Pinnacles Room, Parmelia Hilton Perth, Mill Street, Perth Western Australia on 25 November 2005 commencing at 11 am WST.

# COMPANY OVERVIEW

CollTech Australia Limited (ASX: CAU) is an Australian listed bio-industrial company specialising in the production of high-grade collagen and other biomaterials from animal sources. CollTech has developed and patented a novel manufacturing technology enabling the world's first commercial extraction of collagen from a unique source - sheep (ovine) skin. CollTech will market four key collagen products under its OVICOLL™ brand for the global food, cosmetic and medical markets.



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