

Benitec



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Benitec



Benitec is an international biotechnology company focused on developing therapeutics to treat serious diseases using its proprietary RNA interference (RNAi) technology. Benitec is listed on the Australian Stock Exchange and has its operations centered in Silicon Valley in Mountain View, California, USA. Its lead therapeutic programs are for Hepatitis C Virus (HCV) and the Human Immunodeficiency Virus (HIV).

What is unique to RNAi is the ability to target virtually any disease with a genetic basis; be that the inappropriate over-expression of genes, such as in many cancers and neurodegenerative disorders, or when the disease causing agent is DNA or RNA itself, as with viruses such as HCV and HIV. What is unique to Benitec is the ability to multi-target, to hit multiple regions of the target simultaneously, creating in essence a "cocktail" in one drug.

Benitec's RNA-based HIV/AIDS therapeutic, co-developed with the Center for Biomedicine & Genetics at the City of Hope in Los Angeles, California, will enter Phase I clinical trials in early 2006. Benitec's RNAi therapeutic for HCV will enter clinical trials in late 2006.

gene silencing

chairman's and chief executive officer's report



**Sara
Cunningham**

Dear Shareholders,

We are pleased to take this opportunity to update you on the progress of Benitec in the past year, and the road we see ahead for the Company.

RNA interference (RNAi) has had a meteoric rise, from the initial discovery of this mechanism by pioneers in the field such as Drs. Mark Kay, Tom Tuschl, Andy Fire, and Mick Graham, through two human clinical safety trials in the US, to several major commercialization partnerships with the pharmaceutical industry—all within less than eight years. Benitec has remained at the forefront of RNAi strategically and scientifically and is currently poised to begin the first systemic Phase I trial of any RNAi therapeutic in early 2006 using RNAi to target a presently incurable infectious disease.

In January 2005, concurrent with the resignation of John McKinley as Chairman and CEO, the Board appointed us, Raymond Whitten and Sara Cunningham, as Chairman of the Board and as Chief Executive Officer, respectively. The challenges we faced involved those encountered by all cutting-edge biotechnology companies, but also included threats to our intellectual property, and a cash position that required immediate attention. As we communicated in February 2005, our commitment was to resolve our IP disputes, continue to advance our clinical programs, secure strategic opportunities in both technology and IP, and refocus our time, effort, and resources on drug development. Our immediate priority was to resolve, with full acknowledgement of our responsibility to preserve and enhance shareholder value, the contract dispute with Promega Corporation and the patent infringement litigation with Nucleonics, Inc.

In light of the US Supreme Court's recent decision in *Merck KGAA v. Integra Lifesciences I, Ltd.* in which the Court changed the nature and scope of the "safe harbor" exemption for drug development, Benitec filed a motion to dismiss the Nucleonics lawsuit pending in the United States District Court for the District of Delaware. In September, we were successful in having our motion for dismissal granted without prejudice to future rights.

In August, we settled the Promega contract dispute regarding the disposition of the licensing rights and ensuing revenue from the use of our patented technologies in basic research and the drug discovery process. The case concluded with the return of rights to Benitec and the retention of Promega as a non-exclusive licensee.

Our ability to then leverage those research reagent rights, peripheral to our central mission of development of human therapeutics, into a significant strategic partnership with Sigma-Aldrich Corporation will serve shareholders well. Sigma is a major force in the RNAi field worldwide and will allow us to expand the use of our technology in basic and applied life sciences. The license agreement with Sigma validates our IP estate as one of the major portfolios in the field, while the significant equity stake demonstrates Sigma's recognition of Benitec's potential as an investment.

Most importantly, with the settlement of the Promega contract dispute, the reinforcement of our patent estate in Australia following re-examination, and the conclusion of the infringement litigation, we can now continue our drug development efforts without undue distraction.

Those drug development efforts have progressed along the timelines set over a year ago and are at the core of Benitec's potential. We are on track to file an Investigational New Drug (IND) application with the US Food and Drug Administration (FDA) for our HIV/AIDS therapeutic in December of this year and we expect to initiate a human safety trial, with FDA approval, in early 2006.

We expect to begin testing our Hepatitis C therapeutic on a small primate model this year, which positions us to file an IND for that potential blockbuster drug in late 2006. Separately, we signed an exclusive agreement with Calando Pharmaceuticals for a proprietary delivery technology that may well make RNAi drugs mainstream. And as no one has ever developed RNAi drugs against HIV and HCV, our scientists are inventing both the therapeutics and the means of developing these therapeutics, all of which broadens and enriches our IP portfolio, while consistently validating the power of our team.

Our cash position has been strengthened considerably through our May 2005 rights issue and the license revenues and equity investment from Sigma in October 2005. In addition, resolving our legal issues and streamlining our cost structure has improved our efficient use of funds. As with most development stage biotechnology companies, our clinical programs are very capital intensive and thus we must rely heavily on continued share issues to fund operations. While being well-capitalized is critical, in a field where there is no path to follow, our ability to compete is greatly dependent on the intelligence and insight of our scientists, management, and Board of Directors. As leaders in the RNAi field, we feel confident in our ability to capture the enormous financial and societal opportunities before us.

Your continued support is essential as we rise to the challenges ahead—Benitec has the extensive knowledge and inventiveness in this field to deliver on the promise of RNAi.

Yours sincerely,



Raymond L. Whitten
Chairman



Sara M. Cunningham
Chief Executive Officer



**Raymond
Whitten**



directors' report

Your directors are pleased to present their report on the Company and its controlled entities for the financial year ended 30 June 2005.

DIRECTORS

The names of the directors who have served in office at any time during or since the end of the year are:

Mr Raymond Whitten
 Ms Sara Cunningham
 Appointed 9 February 2005
 Mr Robert Thomas
 Mr Alex Cappello
 Appointed 3 February 2005
 Mr John McKinley
 Dr Kenneth Reed
 Mr Gary Taylor
 Resigned 16 February 2005

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

COMPANY SECRETARY

The following persons held the position of company secretary during the financial year:

Ms Sarah Brashears was appointed company co-secretary on 1 March 2005. Ms Brashears joined the Company in June 2004 and is currently its Vice President, Intellectual Property and Legal Affairs.

Mr Raymond Whitten was appointed co-secretary on 1 March 2005. Mr Whitten has been Executive Chairman since January 2005 and was a non-executive director prior thereto. He is the Chairman of the Newcastle Stock Exchange, and is the principal of Whittens Lawyers & Consultants.

Mr Gary Taylor – Resigned 16 February 2005

PRINCIPAL ACTIVITIES

Benitec is an RNAi-based therapeutics company using its proprietary DNA-directed

RNA interference (ddRNAi) technology to develop therapies for the treatment of currently incurable diseases. The Company's two primary therapeutic programs focus on hepatitis C virus (HCV) and the human immunodeficiency virus (HIV). The Company also licenses its technology outside of its core in-house programs in order to generate revenue to support its corporate and operational activities.

The principal activities of the economic entity during the financial year were:

- development of its pre-clinical therapeutic programs for HCV and HIV,
- strategic in- and out-licensing of intellectual property,
- relocation of all operations to the US,
- restructure and expansion of the management team in the US,
- resolution of litigation, and
- fundraising.

OPERATING RESULTS

The consolidated loss of the economic entity after providing for income tax effects amounted to \$14,562,565.

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid during the year and no recommendation was made as to payment of dividends.

REVIEW OF OPERATIONS

During the year the Company completed its transformation from an intellectual property licensing company to an RNAi therapeutics company with two advanced pre-clinical programs. The Company has consolidated its operations in the US, in Mountain View, California, and no longer has operations in Australia.

The Company made significant advancements in its drug development programs. In the HCV program, we have identified a highly promising clinical candidate, and have commenced efficacy and safety

studies of this clinical candidate in small animal models, including marmosets, in order to facilitate the submission of an investigational new drug application (IND) to the US Food and Drug Administration (FDA). We hope to commence Phase I trials in late 2006.

In the HIV program, which is being co-developed with the Center for Biomedicine & Genetics at the City of Hope in Los Angeles, California, we are now poised to begin Phase I trials in early 2006.

We continue to add high profile members to our Scientific Advisory Board (SAB), which is comprised of recognised practitioners in RNAi and members whose expertise covers regulatory, delivery, and drug development both in RNAi and in traditional drug development methods. The SAB acts in a supervisory role, and ensures that the highest standards of scientific conduct are maintained in support of our clinical development programs and in our R&D activities.

The following Key Milestones were achieved during the year:

- Completed integration of Avocel, Inc. and relocation of operations to California.
- Granted research licenses to Merck, Inc., as well as to several smaller research reagent companies.
- Settled infringement lawsuits against Ambion, Inc. and Genscript Corp.
- Received confirmation of issuance of additional core patents in UK, Canada and several other jurisdictions.
- Established collaboration with City of Hope in Los Angeles, California to use ddRNAi in the treatment of HIV/AIDS.
- Granted a therapeutic license to Revivicor, Inc.
- Obtained an exclusive license for a novel non-viral delivery technology from Stanford University.
- Raised \$3,961,750 in a private placement to institutional and qualified investors.
- Raised \$892,100 in a shareholders' share placement plan.
- Appointed Sara Cunningham as Chief Executive Officer and an Executive Director.
- Appointed Alex Cappello as a Non-Executive Director.
- Entered into a cross-licensing and collaboration agreement with Combi-Matrix.
- Appointed Katherine High, MD, a

leading hematology researcher and Advisory Committee member of the US FDA, to the SAB.

- Entered into a cross-licensing agreement with Alnylam Pharmaceuticals, Inc.
- Appointed Michael Catelani as Chief Financial Officer.
- Raised \$9,734,526 in a fully underwritten non-renounceable rights issue of two shares for every three shares held in the Company.
- Identified a clinical candidate for our therapeutic against HCV.
- Obtained an exclusive license to a non-viral RNAi delivery technology for therapeutics against HCV from Calando Pharmaceuticals Inc.

FINANCIAL POSITION

The net assets of the economic entity have increased by \$652,654 from 30 June 2004 to \$24,879,189 in 2005. This increase has largely resulted from share issues offset by the Company's operating results.

As with many development stage biotechnology companies, the Company generates very little revenue to support its significant research and development efforts, and accordingly must rely heavily on share issues to fund its operations.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

- In November 2004, the Company issued 7,203,182 ordinary shares at \$0.55 each in a private placement to institutional and sophisticated investors.
- In December 2004, the Company issued 1,622,000 ordinary shares at \$0.55 each in a shareholders' share placement plan.
- In May 2005, the Company issued 60,840,786 ordinary shares at \$0.16 each to shareholders on the basis of two shares for every three shares held. Further, for every two shares acquired by a shareholder, an option was granted for the right to acquire one ordinary share at \$0.32.

AFTER BALANCE DATE EVENTS

On 21 August 2005, the Company and Promega Corporation settled their contract dispute. As part of the settlement,



Promega will hold a worldwide non-exclusive license to make and sell ddRNAi based research products. Promega will also receive payment in the form of cash and continuing royalties from certain licensees.

On 23 August 2005, the Australian Patent Office completed its review of the Company's Australian patents, and the patents were upheld.

On 30 September 2005, the United States District Court of the State of Delaware granted the Company's motion to dismiss the patent infringement litigation with Nucleonics, Inc.

Except for the above, 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 economic entity, the results of operations, or the state of affairs of the economic entity in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS, AND BUSINESS STRATEGIES

The Company is obliged, subject to strict exceptions, to immediately disclose to the ASX information that is likely to have an effect on the price or value of its securities. Accordingly, the description of future developments set out below must by necessity be given in general terms and objectives for the management team.

The likely developments in the operations of the economic entity are as follows:

- Co-development of a separate RNAi contract research business with a strategic partner.
- Raise additional capital such that the Company will be appropriately funded for no less than 18 months and up to filing of an IND with the FDA for the HCV therapeutic.
- Additional collaborations with entities that can further the Company's therapeutic programs.
- Favourable resolution of remaining patent re-examinations.
- Commence Phase I trial for HIV program.
- Formation of alliances and cross-licensing with third parties in relation to in-licensing requirements for therapeutic development.
- Progression toward eventual listing in the US securities market.
- Extension of the Company's intellectual property platform in RNAi.
- Identification and commencement of research activities for a third therapeutic program, either alone or in co-development with another entity.

ENVIRONMENTAL AND HUMAN RESOURCES ISSUES

The Company's operations are situated in Mountain View, California. The Company is responsible for ensuring that its employees comply with the facility's occupational health and safety (OH&S) regulations as well as having a primary responsibility to its employees and any other persons associated with the Company working in its laboratories or at its administrative premises. We have an obligation to provide safe workplaces and a safe working environment, to adopt measures which will minimise the risks and harmful effects of fire, explosion, exposure to hazardous chemicals or organisms, and to provide appropriate protective equipment. The Company has appointed an OH&S officer whose function it is to review all OH&S matters, to make recommendations upon such issues as may from time to time be appropriate from new working practices or from the adoption and handling of new guidelines set out in the Company's OH&S manual.

All staff is bound under their contract of employment to comply with all policies and regulations relating to OH&S which are notified to them from time to time during the currency of their employment.

The Company adopts best practice in its human resource management in order to maintain and attract the best workforce to accomplish the Company's goals and objectives.

INFORMATION ON DIRECTORS

Raymond Whitten, 57
Executive Chairman

Qualifications

Bachelor of Arts, Bachelor of Laws (Sydney), Master of Laws (UTS), Accredited Specialist Business Law, Notary Public

Experience

Chairman of Newcastle Stock Exchange, Principal of Whittens Lawyers & Consultants, and over 30 years legal experience

Interest in Shares and Options

14,339,253 ordinary shares and options to acquire a further 3,868,850 ordinary shares

Special Responsibilities

Chairman of the Board

Directorships held in other listed entities

Chairman of Newcastle Stock Exchange (ASX: NSX)

Sara Cunningham, 37
Executive Director and CEO

Qualifications

BSc, MSc

Experience

Over 15 years in the biotechnology industry, co-founder of Avocel

Interest in Shares and Options

1,075,000 ordinary shares and options to acquire a further 50,000 ordinary shares

Special Responsibilities

Chief Executive Officer

Robert Thomas, 60
Non-Executive Director and Deputy Chairman

Qualifications

B Econ, FSIA

Experience

Chairman, Citigroup Global Corporate & Investment Bank, Australia and New Zealand and has over 30 years experience in the securities industry

Interest in Shares and Options

2,436,948 ordinary shares and options to acquire a further 1,038,974 ordinary shares

Special Responsibilities

Chairman of the Remuneration Committee and Chairman of the Audit Committee

Directorships held in other listed entities

Chairman of Australian Wealth Management Limited (ASX: AUW) and Chairman of Heartware Limited (ASX: HTW)

Alex Cappello, 49
Non-Executive Director

Qualifications

BSc

Experience

Co-founder, Chairman and CEO of Cappello Capital Corp., an investment banking firm

Interest in Shares and Options

Options to acquire 9,190,442 ordinary shares

Special Responsibilities

Member of the Remuneration Committee and Audit Committee

Directorships held in other listed entities

Chairman of Inter-Tel Incorporated (NASDAQ: INTL), Chairman of Advanced Biotherapy, Inc. (OTCBB: ADVB), and director of Genius Products, Inc. (OTCBB: GNPI)

John McKinley, 51
Non-Executive Director

Qualifications

LLB(H), Solicitor (UK)

Experience

Over 16 years in the biotechnology industry

Interest in Shares and Options

500,000 ordinary shares and options to acquire a further 1,500,000 ordinary shares

Kenneth Reed, 60
Non-Executive Director

Qualifications

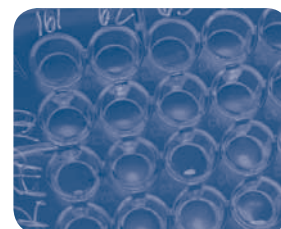
BSc, MSc, PhD

Experience

Deputy Chairman of the Government's Biotechnology Advisory Council and more than 20 years research experience

Interest in Shares and Options

1,011,000 ordinary shares and options to acquire a further 1,000,000 ordinary shares



REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of the Company, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives based on key performance areas. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives, and shareholders.

The Board is responsible for determining the appropriate remuneration package for the CEO, and the CEO is in turn responsible for determining the appropriate remuneration packages for senior management.

All executives are eligible to receive a base salary (which is based on factors such as experience and comparable industry information), fringe benefits, options, and performance incentives. The Remuneration Committee reviews the CEO's remuneration package, and the CEO reviews the other senior executives' remuneration packages, annually by reference to the economic entity's performance, executive performance, and comparable information within the industry.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the overall success of the Company in achieving its broader corporate goals. Bonuses and incentives are linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses, and options, and can recommend changes to the committee's recommendations. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are entitled to participate in the Employee Share Option Plan.

Any Australian executives or directors receive a superannuation guarantee

contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment, and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties, and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the Employee Share Option Plan.

Performance Based Remuneration

As part of each executive's remuneration package there is a performance-based component. The intention of this program is to facilitate goal congruence between executives with that of the business and shareholders. Generally, the executive's performance based remuneration is tied to the Company's successful achievement of certain key milestones as relates to its operating activities, as well as the Company's overall financial position.

Company Performance, Shareholder Wealth, and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors, and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on achievement of key corporate milestones, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

Details of Remuneration for Year Ended 30 June 2005

The remuneration for each director and each of the highest paid executives of the Company was as follows:

		Primary			Post Employ- ment	Equity	Other	Total
Directors	Salary and Fees	Super- annua- tion	Cash Bonus	Non- cash Benefits	Super- annua- tion	Fair Value of Options		
Raymond Whitten (1)	143,580	2,197	–	–	–	–	69,128	214,905
Sara Cunningham (2)	119,982	–	33,251	–	–	–	–	153,233
Robert Thomas	50,000	4,500	–	–	–	–	12,500	67,000
Alex Cappello (3)	18,247	–	–	–	–	–	609,270	627,517
John McKinley (4)	378,228	–	–	–	–	–	22,498	400,726
Kenneth Reed (5)	115,686	1,187	–	–	–	–	–	116,873
Gary Taylor (6)	28,479	2,025	–	–	–	–	95,890	126,394
	854,202	9,909	33,251	–	–	–	809,286	1,706,648
Specified Executives								
Sara Cunningham (2)	152,678	–	–	–	–	–	–	152,678
Sarah Brashears	266,010	–	–	–	–	208,000	–	474,010
Michael Catelani (7)	58,234	–	–	–	–	156,000	–	214,234
	476,922	–	–	–	–	364,000	–	840,922

- (1) Mr Whitten was a Non-Executive Director until 17 January 2005 when he was appointed Executive Chairman.
- (2) Ms Cunningham was appointed Chief Executive Officer on 17 January 2005 and Executive Director on 9 February 2005.
- (3) Mr Cappello was appointed a Non-Executive Director on 3 February 2005.
- (4) Mr McKinley was Executive Chairman and CEO until 17 January 2005 when he resigned as CEO and remained as a Non-Executive Director.
- (5) Mr Reed was an Executive Director and Director of Research & Development until 15 March 2005 when he retired as Director of Research & Development and remained as a Non-Executive Director.
- (6) Mr Taylor was a Non-Executive Director until his resignation on 16 February 2005.
- (7) Mr Catelani was appointed Chief Financial Officer on 8 April 2005.

Options Issued as Part of Remuneration for the Year Ended 30 June 2005

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the directors and executives of the Company to increase goal congruence between executives, directors, and shareholders. During the year ended 30 June 2005, no options were granted to directors as part of their remuneration.

Specified Executives	Options Granted #	Options Granted as Part of Remuneration \$	Total Re-numeration Represented by Options %	Options Exercised \$	Options Lapsed \$	Total \$
Sarah Brashears	2,000,000	208,000	44	–	–	208,000
Michael Catelani	1,500,000	156,000	73	–	–	156,000
	3,500,000	364,000		–	–	364,000

Payments to Related Parties of Directors

Mr Whitten is the principal of Whittens Lawyers & Consultants. Whittens Lawyers & Consultants has received or is entitled to receive the sum of \$39,440 for the year ended 30 June 2005 for legal services. This fee includes all professional costs associated with preparing the prospectus for the fully underwritten non-renounceable rights issue which was lodged in April 2005. These services were charged for at a discount to normal commercial rates.

Total fees of \$119,169 paid to Mr Whitten as Executive Chairman were paid to Jopela Pty. Ltd., a firm in which Mr Whitten has a beneficial interest.

Travel services totalling \$4,688 have been supplied to Benitec by Torona Pty. Ltd., trading as Anywhere Travel and Anywhere Travel CBD. Mr Whitten is a director of Torona Pty. Ltd.

A sub-underwriting fee of \$25,000 was paid to Barbary Coast Investments Pty. Ltd. following the fully underwritten non-renounceable rights issue. Mr Whitten is a director of Barbary Coast Investments Pty. Ltd.

A sub-underwriting fee of \$12,500 was paid to Mr Thomas following the fully underwritten non-renounceable rights issue.

Mr Cappello is the Chief Executive Officer of Cappello Capital Corp. Cappello Capital is an investment banking firm with which the Company has an exclusive strategic advisor and investment banking relationship. Cappello Capital has received or is entitled to receive the sum of \$609,270 for the year ended 30 June 2005 for professional services. Cappello Capital has opted to receive \$131,290 of this amount in 482,566 ordinary shares in lieu of cash. This issuance of shares is subject to shareholder approval. Further, Cappello Capital received warrants to acquire 9,190,442 ordinary shares of the Company. Cappello Capital has received or is entitled to receive the sum of \$52,843 since 30 June 2005 for professional services. Cappello Capital has opted to receive \$39,632 of this amount in 265,958 ordinary shares in lieu of cash. This issuance of shares is subject to shareholder approval. These services were charged for at normal commercial rates.

Total fees of \$400,726 paid to Mr McKinley as Executive Chairman and Chief Executive Officer were paid to Technology Investment & Management Ltd. and Management Services & Technology Ltd. in which Mr McKinley has a beneficial interest.

Mr Taylor is the principal of Bentley Barton, Chartered Accountants. Bentley Barton has received or is entitled to receive the sum of \$95,890 for the year ended 30 June 2005 for accounting and corporate secretarial services. These services were charged for at a discount to normal commercial rates.

Employment Contracts of Directors and Senior Executives

The employment conditions of Ms Sara Cunningham, Executive Director and CEO, Mr Michael Catelani, Chief Financial Officer, and Ms Sarah Brashears, Vice President of Intellectual Property and Legal Affairs, are formalised in contracts of employment.

The employment contracts of Ms Cunningham and Ms Brashears stipulate, among other things, that they are eligible to receive up to twelve weeks of severance pay in the event of an involuntary termination of employment. The employment contract of Mr Catelani stipulates, among other things, that he is eligible to receive twelve months severance pay in the event of an involuntary termination of employment resulting from a change of control of the Company. In all three cases, if the employee voluntarily terminates or is terminated for cause, no severance payments are payable. Further, in the case of a change of control, all unvested options will immediately vest.

DIRECTORS' MEETINGS

During the financial year, 14 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

Director	Director's Meeting		Audit Committee Meeting		Remuneration Committee Meeting	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
R Whitten	14	14	—	—	—	—
S Cunningham	7	7	—	—	—	—
R Thomas	14	14	—	—	—	—
A Cappello	7	6	—	—	—	—
J McKinley	14	13	—	—	—	—
K Reed	14	13	—	—	—	—
G Taylor	7	7	—	—	—	—

There were no separate meetings of either the Audit Committee or Remuneration Committee of the Board held during the year. All Audit and Remuneration Committee meetings were held in conjunction with the main board meetings.

INDEMNIFYING OFFICERS OR AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the secretary, and all officers of the Company and any associated company, against any liability incurred by such a director, secretary or officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company, or of any associated company, against any liability incurred by such an officer or auditor.

OPTIONS

At the date of this Directors' Report, the Company has a total of 54,744,884 options to acquire ordinary shares in the Company. Unless otherwise noted, all options are unlisted, restricted and are categorised as follows:

Type	Number
Listed Options (BLTO)	30,420,262
Employee Share Option Plan	10,366,620
Directors' Options	4,750,000
Strategic Advisor Warrants	9,190,442
Other	17,560
Total	54,744,884

Listed Options

The Listed Options were issued as a result of the May 2005 capital raising whereby the Company issued 60,840,786 ordinary shares at \$0.16 each to shareholders on the basis of two shares for every three shares held. Further, for every two shares acquired by a shareholder, an option was granted for the right to acquire one ordinary share at \$0.32. Such options expire 6 April 2008.

Employees Share Option Plan (ESOP)

Employee Options are regulated by the Plan which has been previously announced. In summary, all options falling under the ESOP expire on the dates set out below. Options held by any employee who resigned earlier will expire on a time determined by the Board or otherwise in six months. The Board has the power to adjust, amend and cancel the ESOP.

Grant Date	Expiry Date	Exercise Price	Number
29 July 2002	28 July 2009	\$0.50	190,000
29 July 2002	28 July 2009	\$1.00	175,000
29 July 2002	28 July 2009	\$1.50	187,500
29 July 2002	28 July 2009	\$2.00	187,500
16 June 2005	16 June 2012	\$0.145	5,830,000
19 July 2005	19 July 2012	\$0.145	3,540,000
17 May 2004	30 September 2013	\$0.03	253,693
17 May 2004	30 September 2013	\$0.07	2,927
Total			10,366,620

Directors' Options

Details of the Director's Options are as follows:

Grant Date	Expiry Date	Exercise Price	Number
28 August 2003	31 December 2005	\$2.00	2,875,000
28 August 2003	31 December 2005	\$2.50	1,875,000
Total			4,750,000

Strategic Advisor Warrants

The Strategic Advisor Warrants were granted on 4 August 2004 to Cappello Capital Corp., an investment banking firm of which Mr Cappello is the Chief Executive Officer. These warrants expire 4 August 2014 and have an exercise price of \$0.90.

Other Options

Other options were granted on 17 May 2004, expire on 30 September 2013, and have an exercise price of \$0.03.

PROCEEDINGS ON BEHALF OF THE COMPANY

There is an ongoing infringement action commenced by the Company against a US based company, Nucleonics, in the Delaware courts. Nucleonics has requested the Australian Patent Office and the US Patent Office to review the Company's and CSIRO's jointly owned and issued patents, questioning validity. Subsequent to the financial year end, the Australian Patent Office upheld the Company's patents. Taking account the number of examinations undertaken on the jointly owned patent estate by patent offices around the globe and the successful current licensing activities, we believe that the Company's position is strong.

NON-AUDIT SERVICES

The Board, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

However, there were no non-audit services provided by external auditors during the year ended 30 June 2005.

Signed in accordance with a resolution of the Board of Directors



Raymond Whitten
Executive Chairman
Dated this 30th September 2005





auditor's independence declaration

RSM Bird Cameron Partners Chartered Accountants

Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +6 2 9233 8933 F +61 2 9233 8521
www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF BENITEC LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

- (i) No contraventions of the auditor independence requirements as set out in 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.

RSM Bird Cameron Partners
Sydney, New South Wales

H R Moll
Partner

Dated this 30 day of September 2005

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scheme approved under
Professional Standards
Legislation

Major Offices in:
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corporate governance statement

ROLES AND RESPONSIBILITIES

The Board of Directors is responsible for the governance of the corporate and operational affairs of Benitec Limited and its controlled entities. The primary role of the Board is to ensure the long-term health and prosperity of the Company which it accomplishes by:

- setting objectives, goals, and strategic direction for the Company with a view to maximising shareholder value,
- adopting an annual budget and monitoring financial performance,
- ensuring adequate internal controls exist and are appropriately monitored for compliance,
- ensuring significant business risks are identified and appropriately managed,
- selecting, appointing, and reviewing the performance of the Chief Executive Officer (CEO),
- selecting and appointing new directors,
- setting the highest business standards and code for ethical behaviour, and
- reviewing the performance of both executive and non-executive directors.

The Board has delegated authority to the CEO to manage the business of the Company and to the Company's various Board committees. Matters which are not covered by delegation require Board approval. Among such matters requiring additional Board approval are material capital expenditure or expenditure outside the ordinary course of business, approval of major elements of strategy (including any significant changes in direction), approval of the interim and final accounts and related reports to the ASX, and proposals for the issue of securities by the Company.

Board papers make the Board aware of current and forthcoming issues relevant to the Company's operations and performance and Board meetings are held at regular intervals. These papers contain the monthly and year-to-date performance of all projects compared with budget and papers relating to particularly significant issues. The Board may seek further information on any issue from the executive directors.

An annual Board strategy meeting is held in conjunction with senior management at which the strategic direction for the Company in the short and longer term is reviewed and agreed.

CURRENT BOARD COMPOSITION

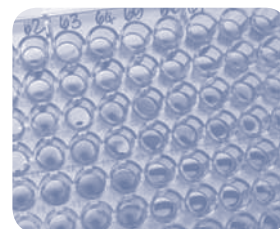
At the date of this statement, the Board comprises two Executive Directors and four Non-Executive Directors (NEDs). The members of the Board and brief resumes are contained in a schedule in the Directors' Report.

The Board has resolved that a majority of the members of each Board committee should be NEDs, and that the Audit Committee and the Remuneration Committee should be chaired by NEDs.

The Board has approved that NEDs should meet at least twice a year in absence of management and at such other times as they may determine.

The Board is cognisant that Mr Raymond Whitten acts as Executive Chairman. In accordance with ASX Guidance Note 9 (ASXGN9) on Corporate Governance, Mr Robert Thomas, given his independence, has been elected to act as lead director. The Board constantly reviews this position.

The Company acknowledges the importance of having independent directors as determined by objective criteria. As importantly, the Company is committed to having a Board whose members have the capacity to act independently and





have the composite skills to optimise the financial performance of the Company and return to shareholders.

The Company recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance.

The Company's Constitution provides that:

- the maximum number of directors shall be ten unless amended by a resolution at a General Meeting of Shareholders,
- one third of the directors (excluding the managing director and rounded down) must retire from office at the Annual General Meeting (AGM) each year; such retiring directors are eligible for re-election,
- directors appointed to fill casual vacancies must submit to election at the next general meeting, and
- the number of directors necessary to constitute a quorum is not less than two of the directors currently in office.

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION MAKING

The Board insists on honest, fair, and diligent conduct of its directors when dealing with staff, shareholders, customers, regulatory authorities, and the community. The practice of the Board and its management should not depart from the ASX Principles in any significant way.

Policies on share trading by directors and senior managers are applied and reviewed regularly. These disciplines are enforced upon all employees and contractors of the Company.

Board members who have or may have a conflict of interest in any activity of the Company or with regard to any decision before the Board, notify the Board of such and a decision is made as to whether the Board member concerned is to be excluded from making decisions that relates to the particular matter. The Company's constitution allows a director to enter into any contract with the Company other than that of auditor for the Company, subject to the law.

To encourage intelligent and responsible decision making, the Board also accepts that directors are able to seek independent professional advice for Company related matters at the Company's expense,

subject to the instruction and estimated cost being approved by the chairman in advance as being respectively necessary and reasonable.

AUDIT COMMITTEE - INTEGRITY OF FINANCIAL REPORTING

The Committee is comprised of two NEDs; they are Mr Robert Thomas (Chairman) and Mr Alex Cappello.

Audit Committee meetings have been held in conjunction with the main board meetings.

The main objective of the Committee is to assist the Board in reviewing any matters of significance affecting financial reporting and compliance of the economic entity including:

- exercising oversight of the accuracy and completeness of the financial statements;
- making informed decisions regarding accounting and compliance policies, practices, and disclosures;
- reviewing the scope and results of operational risk reviews, compliance reviews, and external audits; and
- assessing the adequacy of the economic entity's internal control framework including accounting, compliance, and operational risk management controls based on information provided or obtained.

"Compliance" refers to compliance with laws and regulations, internal compliance guidelines, policies and procedures, and other prescribed internal standards of behaviour.

The Committee has the power to conduct or authorise investigations into, or consult independent experts on, any matters within the Committee's scope of responsibility. The Company will require that the external audit engagement partner and review partner be rotated every five years.

TIMELY AND BALANCED DISCLOSURE

The Board is committed to inform the shareholders and market of any major events that influence the Company in a timely and conscientious manner. The Board is responsible for ensuring that the Company complies with ASX Listing Rule 3.1.

Any market sensitive information is discussed by the Board before it is approved to be released to the market.

The Company's procedure is to lodge the information with the ASX and make it available on its website, www.benitec.com.

COMMUNICATION WITH SHAREHOLDERS

The Board ensures that the shareholders are fully informed of matters likely to be of interest to them. The Company provides all obligatory information such as annual reports, half yearly reports and other ASX required reports in accordance with the law and regulations.

Notices of shareholders meetings, annual and extraordinary, are distributed in a timely manner and are accompanied by all information that the Company has obtained.

The Company is always available to be contacted by shareholders for any query that the shareholders may have. The queries can be submitted by telephone, email or fax to the Company's office.

The chairman encourages questions and comments at the AGM ensuring that shareholders have a chance to obtain direct response from the CEO and other appropriate Board members.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company recognises the need for risk management and internal control. The Board supports the ASX Principles in relation to this matter. All Board members are responsible for reviewing the risk profile of the Company in the areas of market, liquidity, equity, credit, operational, and regulatory compliance risks and reviewing the Company's risk management framework and any variations to it. Due to the nature and size of the Company, risk management is discussed regularly in Board meetings.

Given their specific skill and roles, Mr Raymond Whitten and Ms Sara Cunningham are responsible for raising awareness of all operational risks, including research and projects to the Board members. Their roles include providing intelligent recommendations to the Board members to make an informed decision in relation to these risks.

Other non-operational risks are handled by appropriate directors according to their ability and area of expertise and reported/recommended in the Board meetings for discussion and approval.

As the Company grows and increases in its complexity, a Risk Management Committee may be formed to assist the Board in assessing risks and making recommendations. Where appropriate or desirable, such committee will seek external advice from experts.

BOARD MANAGEMENT AND PERFORMANCE ASSESSMENTS

The Board performs an annual review of individual performance of its members. One third of the number of directors is required to stand for re-election at the AGM. This is normally achieved by voluntary termination by the longest serving directors.

The Chairman conducts review on the performance of the NEDs and committees and the overall effectiveness of the Board. The review covers the following matters:

- the Board's effectiveness in the development of the Company's business and operations and the functionality of each committee in performing its duties;
- interaction between Board members and between Board members and the management team;
- Board functionality – to monitor and control operations, compliance, and management; and
- the standard of conduct of Board members.

This review will then be summarized and reported at the Board meeting to improve the effectiveness of the Board.

The performances of key executives are reviewed formally by the NEDs. The assessment covers:

- the Company's economic performance,
- commercial achievements,
- achievements against targets,
- project management,
- budget comparison,
- personnel management and personal and ethical conduct, and
- feedback from staff, shareholders, and customers.

The CEO reviews the management team periodically and provides reports as needed to Board members.





DIRECTOR AND EXECUTIVE REMUNERATION - REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in ensuring that the economic entity's remuneration levels are appropriate in the markets in which it operates and are applied, and seen to be applied, fairly. The members are Mr Robert Thomas (Chairman) and Mr Alex Cappello. The Committee has the responsibility to:

- review and approve, on behalf of the Board, annual budgets which include recommendations for annual CEO remuneration, as well as allocations made under the Company's option schemes.
- review remuneration arrangements relating to individuals or groups of individuals (including directors) in appropriately material circumstances; such circumstances may include but are not limited to:
 - a) recommendations of the Board relating to the cessation of employment of senior executives and
 - b) recommendations of the Board involving significant exceptions to policy. The Committee may approve such arrangements unless they are significant, in which case the Committee will make a recommendation to the Board.
- review and recommend to the Board:
 - a) proposals for changes to remuneration levels which are referred to the Board by the Executive Chairman or CEO and
 - b) remuneration recommendations relating to the Executive Chairman or CEO.

The Committee meetings have been held in conjunction with the main board meetings as needed. The Committee has access to senior management of the Company and may consult independent experts where the Committee considers it necessary to carry out its duties.

Currently, the Company pays salaries to the Executive Directors and director's fees to the NEDs. As stated in the Directors' Report, Mr Whitten's legal and consulting firms receive fees for professional legal and other consultancy services to the Company and Mr Cappello's investment banking firm receives fees for professional services provided to the Company.

STAKEHOLDER CODE OF CONDUCT

The Board is cognisant of ASX and ASIC guidelines on Corporate Governance and regularly reviews its own governance process to ensure continuous compliance with ASX, ASIC and all other regulatory bodies having relevant authority over any of the Company's activities.

statement of financial performance

for the year ended 30 june 2005

	Note	Economic Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Revenue from ordinary activities	2	989,133	716,599	10,449	–
Cost of sales		–	–	–	–
Gross profit		989,133	716,599	10,449	–
Other revenues from ordinary activities	2	57,509	152,015	(491,487)	222,508
Revenue from non-operating activities	2	39,755	2,100	–	–
Marketing costs		(572,763)	(604,718)	(10,031)	–
Occupancy costs		(1,254,972)	(155,505)	–	–
Administration expenses	3	(13,690,548)	(7,897,498)	(1,438,874)	(495,485)
Borrowing costs	3	(17,717)	(35,893)	–	(31,415)
Other expenses from ordinary activities		(112,962)	(4,327)	–	–
Loss from ordinary activities before income tax		(14,562,565)	(7,827,227)	(1,929,943)	(304,392)
Income tax expense relating to ordinary activities	4	–	–	–	–
Loss from ordinary activities after related income tax expense		(14,562,565)	(7,827,227)	(1,929,943)	(304,392)
Net loss attributable to members of the parent entity		(14,562,565)	(7,827,227)	(1,929,943)	(304,392)
Total changes in equity other than those resulting from transactions with owners as owners		(14,562,565)	(7,827,227)	(1,929,943)	(304,392)
Basic loss per share (cents per share)		(14.71)	(11.34)	–	–
Diluted loss per share (cents per share)		(14.71)	(11.34)	–	–

(The accompanying notes form part of these financial statements.)

statement of financial position

for the year ended 30 june 2005

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
CURRENT ASSETS					
Cash	8	6,067,736	4,711,521	5,563,968	4,388,986
Receivables	9	102,832	40,500	37,064,497	24,789,722
Other	10	729,582	55,439	9,792	–
TOTAL CURRENT ASSETS		6,900,150	4,807,460	42,638,257	29,178,708
NON-CURRENT ASSETS					
Other financial assets	11	–	–	9,528,926	9,528,926
Property, plant and equipment	13	903,497	313,017	–	–
Intangibles	14	20,651,930	21,821,627	–	–
TOTAL NON-CURRENT ASSETS		21,555,427	22,134,644	9,528,926	9,528,926
TOTAL ASSETS		28,455,577	26,942,104	52,167,183	38,707,634
CURRENT LIABILITIES					
Payables	15	3,481,565	2,624,679	238,744	64,471
Interest bearing liabilities	16	–	45,908	–	–
Provisions	17	92,723	44,982	–	–
TOTAL CURRENT LIABILITIES		3,574,288	2,715,569	238,744	64,471
NON-CURRENT LIABILITIES					
Payables	15	2,100	–	–	–
TOTAL NON-CURRENT LIABILITIES		2,100	–	–	–
TOTAL LIABILITIES		3,576,388	2,715,569	238,744	64,471
NET ASSETS		24,879,189	24,226,535	51,928,439	38,643,163
EQUITY					
Contributed equity	18	63,146,830	47,931,611	63,146,830	47,931,611
Retained losses	19	(38,267,641)	(23,705,076)	(11,218,391)	(9,288,448)
TOTAL EQUITY		24,879,189	24,226,535	51,928,439	38,643,163

(The accompanying notes form part of these financial statements.)

statement of cash flows

for the year ended 30 june 2005

	Note	Economic Entity		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		962,955	106,904	10,449	–
Payments to suppliers and employees		(14,342,182)	(9,690,584)	(14,311,986)	(479,484)
Interest received		113,879	237,208	111,733	206,782
Borrowing costs		(17,717)	(35,893)	–	(31,415)
Government grants and tax rebates received		65,933	625,040	–	–
Other cash receipts		67,529	250	–	–
Net cash used in operating activities	23(a)	(13,149,603)	(8,757,075)	(14,189,804)	(304,117)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		39,755	2,100	–	–
Purchase of property, plant and equipment		(808,888)	(55,738)	–	–
Cost incurred to acquire controlled entities, net of cash balances	23(b)	–	(271,514)	–	–
Loans to wholly-owned subsidiaries		–	–	–	(9,467,050)
Net cash used in investing activities		(769,133)	(325,152)	–	(9,467,050)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		–	1,000,000	–	–
Repayment of borrowings		(45,909)	(1,861,214)	–	(340,000)
Capital raising costs		(166,681)	(655,035)	(166,681)	(655,035)
Proceeds from issue of securities		15,531,467	15,078,250	15,531,467	15,078,250
Net cash provided by financing activities		15,318,877	13,562,001	15,364,786	14,083,215
Net increase in cash held		1,400,141	4,479,774	1,174,982	4,312,048
Exchange rate changes		–	(14,047)	–	–
Cash at 1 July		4,667,595	201,868	4,388,986	76,938
Cash at 30 June		6,067,736	4,667,595	5,563,968	4,388,986

(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 Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Benitec Ltd. and controlled entities, and Benitec Ltd. as an individual parent entity. Benitec Ltd. is a listed 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 economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity controlled by Benitec Ltd. Control exists where Benitec Ltd. has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Benitec Ltd. to achieve the objectives of Benitec Ltd. A list of controlled entities is contained in Note 12 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the operating profit adjusted for any permanent differences.

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

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

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

Benitec Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Benitec Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the ATO on 12 February 2004 that it had formed an income tax consolidated group to apply from 1 July 2002. No tax sharing agreement has been entered between entities in the tax consolidated group.

(c) Plant and Equipment

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

Plant and equipment are measured on the cost basis.

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

Depreciation

The depreciable amount of all fixed assets, including capitalised leased assets, is depreciated on a diminishing value basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20–40% Diminishing value

(d) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(e) Investments

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount for non-listed investments is assessed from the underlying net assets in the particular entities.

The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(f) Research and Development Expenditure

Research and Development costs are charged to 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.

Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production has commenced.

(g) Intangibles

Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

Patents and Trademarks

Patents and Trademarks are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

(h) 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 short-term assets and liabilities, whether realised or unrealised, are included in loss from ordinary activities as they arise.

The assets and liabilities of integrated overseas controlled entities or operations are translated at the reporting date using the temporal method. Gains and losses arising on translation are taken directly to the statement of financial performance.

The assets and liabilities of self-sustaining foreign controlled entities or operations are translated at the reporting date using the current rate method. Gains and losses arising on translation are taken directly to, and retained in, the foreign currency translation reserve until the disposal or partial disposal of the foreign entity or operation.

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

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

(i) Employee Entitlements

Provision is made for the Company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements 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 their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

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

(j) Cash

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

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

(k) Revenue

Revenue from the granting of patents and licenses is recognised in accordance with the terms of the relevant agreements and is usually recognised on accruals basis, unless the substance of the agreement provides evidence that it is more appropriate to recognise revenue on some other systematic and rational basis.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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

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

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

(l) 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 irrecoverable from the Australian Taxation 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.

(m) Comparative Figures

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

(n) Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The economic entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. An AIFRS committee has been established to oversee and manage the economic entity's transition to AIFRS. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of AIFRS are:

First Time Adoption

The economic entity's management is assessing the significance of expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards is being considered where applicable.

Goodwill on Consolidation

Under the proposed changes to AASB 3: Business Combinations, goodwill is to be capitalised to the statement of financial position. Amortisation of goodwill is to be prohibited. Current accounting policy of the entity is to amortise goodwill on a

straight line basis over a period of 20 years. This would represent a change of approximately \$1.1 million per year in goodwill amortisation.

Impairment of Assets

Under AASB 136: Impairment of Assets, goodwill and property, plant and equipment will be subject to an annual impairment test. The directors do not consider these assets to be materially impaired.

Income Tax

Currently, Benitec Limited adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Tax, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit. As the economic entity is currently making losses, the directors do not expect any material adjustment to arise from this new treatment.

Note	Economic Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
NOTE 2: REVENUE				
Revenue from operating activities				
-Sale of goods	—	—	—	—
-Licensing revenue and royalties	923,200	91,559	10,449	—
-Government grants and rebates received	65,933	625,040	—	—
	989,133	716,599	10,449	—
Other revenue				
-Interest received	2(a) 113,879	252,934	111,733	222,508
-Foreign currency translation losses	(125,881)	(101,169)	(603,220)	—
-Other revenue	69,511	250	—	—
	57,509	152,015	(491,487)	222,508
Total revenue from operating activities	1,046,642	868,614	(481,038)	222,508
Revenue from non-operating activities				
-Proceeds on disposal of plant and equipment	39,755	2,100	—	—
	39,755	2,100	—	—
Total revenue	1,086,397	870,714	(481,038)	222,508
(a) Interest revenue from:				
-Other persons	113,879	252,934	111,733	222,508

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 3: LOSS FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax has been determined after:

(a) Expenses

Cost of sales	—	—	—	—
Borrowing costs				
-Director related entities	—	31,416	—	31,415
-Other persons	17,717	4,477	—	—
Total borrowing costs	17,717	35,893	—	31,415
Administration expenses				
Depreciation of non-current assets				
-Plant and equipment	218,408	57,405	—	2,536
Total depreciation	218,408	57,405	—	2,536
Amortisation of non-current assets				
-Goodwill on consolidation	1,169,698	783,411	—	—
Total amortisation	1,169,698	783,411	—	—
Write down of non-current assets to recoverable amount	(72,121)	33,849	—	33,849
Bad and doubtful debts				
There were no bad and doubtful debts accounted for during the reporting period.				
Other administration expenses				
-Intellectual property costs expensed	2,671,304	4,513,791	—	—
-Research and development costs	3,027,634	1,009,210	—	—
-Employment and sub-contractors costs	774,246	620,024	263,767	—
-Professional and legal expenses	2,463,291	725,615	223,281	294,073
-Other expenses	3,365,967	188,042	951,826	198,876
Total other administration expenses	12,302,442	7,056,682	1,438,874	492,949
Total administration expenses	13,690,548	7,897,498	1,438,874	495,485

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 3: LOSS FROM ORDINARY ACTIVITIES *continued***(b) Revenue and net gains (losses)**

Foreign currency translation losses	(125,881)	(101,169)	(603,220)	–
Net gain (loss) on disposal of non-current assets				
-Plant and equipment	39,755	(2,227)	–	–

(c) Significant revenues and expenses

The following significant revenue and expense items are relevant in explaining the financial performance:

Revenue

Government grants and rebates received consist of the following:

-Income tax rebates	–	516,331	–	–
-Austrade grants received	65,933	108,709	–	–
	65,933	625,040	–	–

Expenses

Intellectual property costs expensed consist of the following:

-IP costs incurred in Australia	208,015	2,009,325	–	–
-US-based IP costs	865,744	1,223,481	–	–
-Patent insurance	473,022	359,076	–	–
-Other patent expenses	998,830	–	–	–
-IP litigation expenses	110,416	950,159	–	–
-Other IP related expenses	15,278	(28,249)	–	–
	2,671,305	4,513,792	–	–

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 4: INCOME TAX EXPENSE

(a) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2004: 30%)	(4,368,770)	(2,348,168)	(578,983)	(91,318)
<i>Add Tax effect of:</i>				
Non-deductible depreciation and amortisation	416,432	252,245	—	761
Overseas entities' establishment costs	22,828	64,210	—	—
Capital items expensed, not deductible for tax	801,391	1,354,137	—	—
Overseas entities' losses	2,339,243	175,497	—	—
Foreign exchange translation losses not deductible	—	8,510	—	—
Other non-deductible items	(21,636)	43,273	—	14,291
Future income tax benefit not brought to account	810,512	784,222	578,983	76,266
	—	—	—	—
<i>Less Tax effect of:</i>	—	—	—	—
Recoupment of prior year tax losses not previously brought into account	—	(154,899)	—	—
Tax deductible items	—	(14,893)	—	—
Consolidation adjustments related to previous years' retained losses	—	(164,134)	—	—
Foreign exchange gains not subject to income tax	—	—	—	—
Income tax expense attributable to operating profit and extraordinary items before tax	—	—	—	—
(b) Income tax expense attributable to:				
Profit from ordinary activities before income tax	—	—	—	—
	—	—	—	—

(c) The parent entity, acting as the Head Entity, notified the Australian Taxation Office on 12 February 2004 that it had formed a Tax Consolidated Group applicable as from 1 July 2002. In accordance with UIG Abstract 52, deferred tax assets/liabilities of joining subsidiaries have been accounted by the parent/head entity. At the date of this report, no tax sharing agreements exist between entities in the tax consolidated group.

(d) FITB not brought to account, the benefits of which will only be realized if the conditions for deductibility set out in Note 1(b) occur:

Carried forward tax losses	3,654,047	2,038,739	235,514	280,756
	3,654,047	2,038,739	235,514	280,756

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION

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

Parent Entity Directors

Mr Raymond Whitten	Director – Executive Chairman	
Ms Sara M. Cunningham	Director – Chief Executive Officer	Appointed since 9th February 2005
Mr Robert B. Thomas	Director – Non-Executive Deputy Chairman	
Mr Alexander Cappello	Director – Non-Executive	Appointed since 3rd February 2005
Mr John A. McKinley	Director – Non-Executive	Executive Chairman & CEO until 17 January 2005
Dr Kenneth C. Reed	Director – Non-Executive	Executive Director until 15 March 2005
Mr Gary Taylor	Director – Non-Executive	Resigned on 16th February 2005

Specified Executives

Ms Sara M. Cunningham	Chief Executive Officer	Employed since 1st May 2004
Ms Sarah J. Brashears	Vice President – IP & Legal Affairs	Employed since 14th June 2004
Mr Michael J. Catelani	Chief Financial Officer	Employed since 8th April 2005

(b) Parent Entity Director's Remuneration

2005	Primary				Post Employment	Equity	Other	Total
Directors	Salary & Fees	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
Mr Raymond Whitten	143,580	2,197	–	–	–	–	69,128	214,905
Ms Sara M. Cunningham	119,982	–	33,251	–	–	–	–	153,233
Mr Robert B. Thomas	50,000	4,500	–	–	–	–	12,500	67,000
Mr Alexander Cappello	18,247	–	–	–	–	–	609,270	627,517
Mr John A. McKinley	378,228	–	–	–	–	–	22,498	400,726
Dr Kenneth C. Reed	115,686	1,187	–	–	–	–	–	116,873
Mr Gary Taylor	28,479	2,025	–	–	–	–	95,890	126,394
	854,202	9,909	33,251	–	–	–	809,286	1,706,648

2004	Primary				Post Employment	Equity	Other	Total
Directors	Salary & Fees	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
Mr John A. McKinley	648,811	–	–	–	–	56,981	–	705,792
Dr Kenneth C. Reed	179,999	20,700	–	–	–	39,054	–	239,753
Mr Gary Taylor	–	–	–	–	–	20,084	175,368	195,452
Mr Raymond Whitten	–	–	–	–	–	20,164	36,227	56,391
Mr Michael Cox	–	–	–	–	–	20,164	–	20,164
	828,810	20,700	–	–	–	156,477	211,595	1,217,552

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION *continued***(c) Specified Executives' Remuneration**

2005	Primary				Post Employment	Equity	Other	Total
Directors	Salary & Fees	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
Ms Sara M. Cunningham	152,678	—	—	—	—	—	—	152,678
Ms Sarah J. Brashears	266,010	—	—	—	—	208,000	—	474,010
Mr Michael J. Catelani	58,234	—	—	—	—	156,000	—	214,234
	476,922	—	—	—	—	364,000	—	840,922

2004	Primary				Post Employment	Equity	Other	Total
Directors	Salary & Fees	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
Ms Sara M. Cunningham	40,110	3,068	—	—	—	—	1,660	44,838
	40,110	3,068	—	—	—	—	1,660	44,838

(d) Options Granted as Remuneration

					Terms & Conditions for each Grant		
Directors	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date
Mr Raymond Whitten	—	—	—	—	—	—	—
Ms Sara M. Cunningham	—	—	—	—	—	—	—
Mr Robert B. Thomas	—	—	—	—	—	—	—
Mr Alexander Cappello	—	—	—	—	—	—	—
Mr John A. McKinley	—	—	—	—	—	—	—
Dr Kenneth C. Reed	—	—	—	—	—	—	—
Mr Gary Taylor	—	—	—	—	—	—	—

					Terms & Conditions for each Grant		
Specified Executives	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date
Ms Sara M. Cunningham	—	—	—	—	—	—	—
Ms Sarah J. Brashears	1,000,000	2,000,000	16-Jun-05	0.145	0.145	16-Jun-05	16-Jun-12
Mr Michael J. Catelani	125,000	1,500,000	16-Jun-05	0.145	0.145	16-Jun-05	16-Jun-12

All grants of options vest over a two year period beginning on the executive's date of hire and are exercisable on or before 16 June 2012.

No directors were granted options during the year.

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION *continued***(e) Shares Issued on Exercise of Remuneration Options**

	No. of Ordinary Shares Issued	Amount Paid per Share \$	Amount Unpaid per Share \$
Parent Entity Directors			
Specified Executives			

(f) Options and Rights Holdings

Number of Options held by Specified Directors and Executives:

	Balance 01.07.04	Granted as Re- mun- eration	Options Acquired	Options Exercised	Options Expired	Balance 30.06.05	Total Vested at 30.06.05	Total Exercis- able @ 30.06.05	Total Unexer- cisable @ 30.06.05
Directors									
Mr Raymond Whitten	1,750,000	–	2,118,850	–	–	3,868,850	3,868,850	3,868,850	–
Ms Sara M. Cunningham	–	–	50,000	–	–	50,000	50,000	50,000	–
Mr Robert B. Thomas	–	–	1,038,974	–	–	1,038,974	1,038,974	1,038,974	–
Mr Alexander Cappello	–	–	9,190,442	–	–	9,190,442	9,190,442	9,190,442	–
Mr John A. McKinley	3,500,000	–	–	–	(2,000,000)	1,500,000	1,500,000	1,500,000	–
Dr Kenneth C. Reed	2,000,000	–	–	–	(1,000,000)	1,000,000	1,000,000	1,000,000	–
Mr Gary Taylor	750,000	–	–	–	–	750,000	750,000	750,000	–
Sub-total	8,000,000	–	12,398,266	–	(3,000,000)	17,398,266	17,398,266	17,398,266	–
Specified Executives									
Ms Sarah J. Brashears	–	2,000,000	–	–	–	2,000,000	1,000,000	1,000,000	1,000,000
Mr Michael J. Catelani	–	1,500,000	–	–	–	1,500,000	125,000	125,000	1,375,000
Sub-total	–	3,500,000	–	–	–	3,500,000	1,125,000	1,125,000	2,375,000
Total	8,000,000	3,500,000	12,398,266	–	(3,000,000)	20,898,266	18,523,266	18,523,266	2,375,000

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION *continued***(g) Shareholdings**

Number of Shares held by Parent Entity Directors and Specified Executives

	Balance 01.07.04	Received as Remuneration	Upon Options Exercised	Net Change Other*	Balance 30.06.05
Parent Entity Directors					
Mr Raymond Whitten	7,893,263	–	–	6,445,990	14,339,253
Ms Sara M. Cunningham	975,730	–	–	99,270	1,075,000
Mr Robert B. Thomas	200,000	–	–	2,236,948	2,436,948
Mr Alexander Cappello	–	–	–	–	–
Mr John A. McKinley	721,600	–	–	(221,600)	500,000
Dr Kenneth C. Reed	952,000	–	–	59,000	1,011,000
Mr Gary Taylor	5,594,030	–	–	–	5,594,030
Sub-total	16,336,623	–	–	8,619,608	24,956,231
Specified Executives					
Ms Sarah J. Brashears	–	–	–	–	–
Mr Michael J. Catelani	–	–	–	–	–
Sub-total	–	–	–	–	–
Total	16,336,623	–	–	8,619,608	24,956,231

* Net Change Other refers to total shares purchased or sold during the financial year.

(h) Remuneration Practices

The Company's policy for determining the nature and amount of emoluments of board members and senior executives of the Company is as follows:

- The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for services between the Company and specified directors and executives are on a continuing basis, the terms of which are not expected to change significantly in the immediate future. Any unvested options not exercised before or on the date of termination lapse. Options are issued at the discretion and upon ratification by the Board of Directors and serve as a means of encouraging executive officers to remain with the Company over a medium to long term.
- The objective of the remuneration schemes is to both reinforce the short and long-term goals of the Company and to provide a common interest between management and shareholders.

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 6: AUDITOR'S RENUMERATION

Remuneration of the auditor of the parent entity for:

-Auditing or reviewing the financial report

60,576	51,000	50,575	27,000
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Remuneration of other auditors of subsidiaries for:

-Auditing or reviewing the financial report of subsidiaries

59,858	49,727	—	—
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120,434	100,727	50,575	27,000
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NOTE 7: LOSS PER SHARE

(a) Reconciliation of loss to net loss used in EPS calculation

Net loss

(14,562,565)	(7,827,227)	—	—
--------------	-------------	---	---

Loss used in the calculation of basic EPS and dilutive EPS

(14,562,565)	(7,827,227)	—	—
--------------	-------------	---	---

(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS

99,024,272	69,019,069	—	—
------------	------------	---	---

Weighted average number of options outstanding

—	—	—	—
---	---	---	---

Weighted average number of converting preference shares on issue

—	—	—	—
---	---	---	---

Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS

99,024,272	60,019,069	—	—
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(c) Classification of securities

No securities or convertible debt instruments could be classified as potential ordinary shares under AASB 1027 and therefore have not been included in determination of dilutive EPS.

NOTE 8: CASH

Cash in hand

—	374	—	—
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Cash at bank

6,067,736	4,711,147	5,563,968	4,388,986
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6,067,736	4,711,521	5,563,968	4,388,986
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Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
NOTE 9: RECEIVABLES				
CURRENT				
Trade debtors	—	—	—	—
Provision for doubtful debts	—	—	—	—
	—	—	—	—
Sundry debtors	102,832	40,500	15,943	21,137
Amounts receivable from:				
-wholly-owned subsidiary	—	—	37,048,554	24,768,585
-associated companies	—	—	—	—
-director related entities	—	—	—	—
-other related parties	—	—	—	—
	102,832	40,500	37,064,497	24,789,722

NOTE 10: OTHER ASSETS**CURRENT**

Prepayments	174,303	3,577	—	—
Other current assets	555,279	51,862	9,792	—
	729,582	55,439	9,792	—

NOTE 11: OTHER FINANCIAL ASSETS**NON-CURRENT**

Unlisted investments, at cost:	—	—	9,528,926	9,528,926
-Shares in controlled entities	—	—	—	—
-Shares in other related parties	—	—	9,528,926	9,528,926

NOTE 12: CONTROLLED ENTITIES

(a) Controlled entities and their contribution to consolidated loss

	Country of Incorporation	Percentage Owned	
		2005	2004
Parent Entity:			
Benitec Limited	Australia		
Controlled entities of Benitec Limited:			
Benitec Australia Limited	Australia	100%	100%
Benitec Limited	United Kingdom	100%	100%
RNAi Therapeutics, Inc.	USA	100%	100%
Benitec, Inc.	USA	100%	100%
Benitec LLC	USA	100%	100%

(b) Controlled entities acquired

On 15th May 2004 the parent entity acquired 100% of the total share capital of Avocel Inc., a US corporation based in California, through its wholly-owned US-Delaware subsidiary Benitec, Inc., for a total consideration of USD5 million and a debt conversion of USD350,000 by the issue of 7,327,425 ordinary shares of AUD1.00 each and 274,177 unlisted options.

Subsequent to and as part of the terms of the acquisition of Avocel Inc., a merger agreement was entered whereby all operations, employees, assets and liabilities of Avocel Inc. have been transferred to the wholly-owned US subsidiary Benitec LLC.

(c) Controlled entities disposed

No controlled entities were disposed during the financial year.

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

Plant and equipment				
At cost	1,224,929	491,068	—	—
Accumulated depreciation	(321,432)	(178,051)	—	—
Total Property, plant, and equipment	903,497	313,017	—	—

NOTE 13: PROPERTY, PLANT AND EQUIPMENT *continued***(a) Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment \$	Total \$
Economic Entity		
Balance at the beginning of the year	313,017	313,017
Additions	808,888	808,888
Disposals	—	—
Depreciation expense	(218,408)	(218,408)
Carrying amount at the end of the year	903,497	903,497
Parent Entity		
Balance at the beginning of the year	—	—
Additions	—	—
Disposals	—	—
Depreciation expense	—	—
Carrying amount at the end of the year	—	—

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 14: INTANGIBLES

Goodwill at cost	23,393,951	23,393,950	—	—
Accumulated amortisation	(2,742,021)	(1,572,323)	—	—
	20,651,930	21,821,627	—	—

NOTE 15: PAYABLES**CURRENT****Unsecured liabilities**

Trade creditors	818,821	1,120,182	49,974	41,153
Sundry creditors and accrued expenses	2,063,637	562,229	92,069	23,305
Deferred rent	599,107	—	—	—
ABJV provision	—	942,268	—	—
Obligation under patent right	—	—	—	—
Other loans	—	—	—	—
Other non-interest bearing unsecured liabilities	—	—	—	—
Amounts payable to:	—	—	—	—
-wholly-owned subsidiaries	—	—	96,702	13
-director related entity	—	—	—	—
	3,481,565	2,624,679	238,745	64,471

NON-CURRENT**Unsecured liabilities**

State income taxes	2,100	—	—	—
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Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 16: INTEREST-BEARING LIABILITIES

CURRENT

Unsecured loans

Bank overdraft	—	45,908	—	—
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NOTE 17: PROVISIONS

CURRENT

Unsecured loans

Employee entitlements	17(a)	92,723	44,982	—	—
Other provisions		—	—	—	—

(a) Aggregate employee benefits liability

(b) Number of employees at year end

	92,723	44,982	—	—
	92,723	44,982	—	—
	92,723	44,982	—	—
	16	12	—	—

NOTE 18: CONTRIBUTED EQUITY

152,101,966 (2004: 81,620,163) fully paid ordinary shares

18(a)	63,146,830	47,931,611	63,146,830	47,931,611
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(a) Ordinary shares

At the beginning of the reporting period	47,931,611	22,780,875	47,931,611	22,780,875
Shares issued during the year	15,531,467	25,807,020	15,531,467	25,807,020
Transaction costs relating to share issues	(316,248)	(656,284)	(316,248)	(656,284)
At reporting date	63,146,830	47,931,611	63,146,830	47,931,611

	No.	No.	No.	No.
At the beginning of the reporting period	81,620,163	52,880,548	81,620,163	52,880,548
Shares issued during the year	70,481,803	28,739,615	70,481,803	28,739,615
At reporting date	152,101,966	81,620,163	152,101,966	81,620,163

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity 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 19: RETAINED LOSSES

Retained losses as the beginning of the financial year	(23,705,076)	(15,877,849)	(9,288,448)	(8,984,055)
Net loss attributable to the members of the parent entity	(14,562,565)	(7,827,227)	(1,929,943)	(304,393)

Retained losses at the end of the financial year	(38,267,641)	(23,705,076)	(11,218,391)	(9,288,448)
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NOTE 20: CONTINGENT LIABILITIES

Except for the one mentioned item below which arose from previous financial years, no further contingent liabilities are to be reported for this financial year:

Legal case over patent infringement

Benitec Limited has an outstanding US based patent infringement case against Nucleonics. Subsequent to year end, Benitec submitted a motion to dismiss the case without prejudice due to changes in the safe harbour laws governing intellectual property in the drug development process.

NOTE 21: SEGMENT REPORTING

The Company's activity is mainly focused on developing and licensing its ddRNAi technology.

Primary reporting – Business segments

	Biotechnology		Total	
	2005	2004	2005	2004
Revenue				
External customers	923,200	91,558	923,200	91,558
Other segments	–	–	–	–
Unallocated revenue	123,442	777,056	123,442	777,056
Total	1,046,642	868,614	1,046,642	868,614
Results				
Segment results			(14,562,565)	(7,827,227)
Unallocated expenses			–	–
Loss on ordinary activities before income tax expense			(14,562,565)	(7,827,227)
Income tax expense			–	–
Loss on ordinary activities after income tax expense			(14,562,565)	(7,827,227)
Extraordinary items after income tax expense			–	–
Net loss			(14,562,565)	(7,827,227)
Assets				
Carrying amount	28,455,577	26,942,104	28,455,577	26,942,104
Liabilities				
Carrying amount	(3,576,388)	(2,715,569)	(3,576,388)	(2,715,569)
Net assets	24,879,189	24,226,535	24,879,189	24,226,535
Acquisition of non-current segment assets	808,888	7,932,175	808,888	7,932,175
Depreciation and amortisation of segment assets	1,388,106	837,574	1,388,106	837,574

NOTE 21: SEGMENT REPORTING *continued***Secondary reporting – Geographical segments**

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisition of Non-Cur- rent Segment Assets	
	A\$	%Total	A\$	%Total	A\$	%Total
Geographical location						
Australia	582,127	63%	161,910	1%	—	—
United States of America	341,073	37%	28,293,667	99%	808,888	100%
United Kingdom	—	—	—	—	—	—
Total	923,200	100%	28,455,577	100%	808,888	100%

Accounting Policies

Segment revenues and expenses are directly attributable to the identified segments and include joint venture revenue and expenses where a reasonable allocation basis exists. Segment assets include all assets used by a segment and consist mainly of cash, receivables, inventories, intangibles and property, plant and equipment, net of any allowances, accumulated depreciation and amortisation. Where joint assets correspond to two or more segments, allocation of the net carrying amount has been made on a reasonable basis to a particular segment. Segment liabilities include mainly accounts payable, employee entitlements, accrued expenses, provisions and borrowings. Deferred income tax provisions are not included in segment assets and liabilities.

Business and Geographical Segments*Business Segments*

The economic entity had only one business segment during the financial year: Development of RNAi-based therapies for currently incurable diseases, using the Company's proprietary ddRNAi technology.

Geographical Segments

Business operations are conducted in Australia while US located subsidiaries started their operations on 16th May 2004.

NOTE 22: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The economic entity'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 weighed average interest rates on classes of financial assets and liabilities is as follows:

	Floating Interest Rate	Non-Interest Bearing	Total	Average Interest Rate
2005				
Financial assets				
Cash	6,067,736	–	6,067,736	2.12%
Receivables	–	102,832	102,832	n/a
Total financial assets	6,067,736	102,832	6,170,568	
Financial liabilities				
Trade and sundry creditors	–	2,882,458	2,882,458	n/a
Amounts payable to related parties	–	–	–	n/a
Other loans	–	–	–	n/a
Total financial liabilities	–	2,882,458	2,882,458	
2004				
Financial assets				
Cash	4,711,147	–	4,711,147	3.48%
Receivables	–	40,500	40,500	n/a
Total financial assets	4,711,147	40,500	4,751,647	
Financial liabilities				
Trade and sundry creditors	–	1,682,411	1,682,411	n/a
Amounts payable to related parties	–	–	–	n/a
Other loans	–	–	–	n/a
Bank overdraft	45,908	–	45,908	5.02%
Total financial liabilities	45,908	1,682,411	1,728,319	

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the balance sheet and notes to the financial statements.

(d) Net Fair Values

The net fair values listed and other liabilities approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form.

Note	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 23: CASH FLOW INFORMATION

(a) Reconciliation of cash flow from operations with operating loss after income tax

Operating loss after income tax	(14,562,565)	(7,827,227)	(1,929,943)	(304,392)
Cash flows excluded from operating loss attributable to operating activities	—	—	—	—
Non-cash flows in operating loss:				
Amortisation	1,169,698	783,411	—	—
Depreciation	218,408	57,405	—	2,536
Loss (gain) on sale of property, plant and equipment	(39,755)	2,227	—	—
Write down of non-current assets	(72,121)	33,849	—	33,849
Provisions and non-cash adjustments	94,344	(1,537,900)	453,654	8,303
Exchange (gain) loss	(125,881)	118,223	(603,220)	—
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:				
(Increase) decrease in trade and term debtors	(62,333)	20,133	(12,274,776)	2,135
(Increase) decrease in prepayments	(170,727)	(2,653)	—	923
Increase in other current assets	(503,417)	—	(9,792)	—
Increase (decrease) in trade creditors and accruals	904,746	(404,543)	174,273	(47,471)
Net cash flows from operations	(13,149,603)	(8,757,075)	(14,189,804)	(304,117)

(b) Cash flow effect on acquisition of entities

On 15 May 2004, the economic entity acquired 100% of Avocel Inc., a US corporation based in California, through its wholly-owned US-Delaware subsidiary Benitec, Inc. Aggregate details of this transaction were:

Total purchase consideration	—	7,765,895	—	—
Cash consideration as part of total purchase consideration	—	(327,884)	—	—
Amount of cash held by acquired entity at date of acquisition	—	56,370	—	—
Net cash effect of transaction	—	(271,514)	—	—
Other assets and liabilities held at acquisition date:				
Receivables	—	800	—	—
Property, plant and equipment	—	109,422	—	—
Payables	—	(732,132)	—	—
Loan	—	(497,300)	—	—
	—	(1,119,210)	—	—

NOTE 24: EMPLOYEE BENEFITS

Benitec Limited Employees Share Option Plan (ESOP)

Description of plan

The Company may from time to time issue employees options to acquire shares in the Company at a fixed price on the market. Each option when exercised will then entitle the option holder to one share in Benitec Limited (ASX Code: BLT). All options are exercisable on or before an expiry date, do not carry any voting or dividend rights and are not transferable except on death of the option holder.

Transactions during the year

On 16th June 2005, 5,830,000 share options with an exercise price of \$0.145 each were granted to employees under the ESOP. The options vest monthly over a two year period and are exercisable on or before 16th June 2012.

Share options granted to executives

Included in the options granted above, 2,000,000 share options were granted to Ms Sarah J. Brashears, Vice President – IP & Legal Affairs, and 1,500,000 share options were granted to Mr Michael J. Catelani, Chief Financial Officer.

No additional options to directors or executives have been issued after year end, other than 3,000,000 share options were granted to Ms Sara M. Cunningham subject to shareholder approval at the next general meeting of shareholders.

All options issued by Benitec Limited under its ESOP are unlisted.

The closing market price of an ordinary share of Benitec Limited (ASX Code: BLT) on the Australian Stock Exchange at 30 June 2005 was \$0.125 (30 June 2004: \$0.85).

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	No.	No.	No.	No.
(a) Movement in the number of share options held by employees are as follows:				
Opening balance	996,620	1,132,500	996,620	1,132,500
Granted during the year	5,830,000	375,000	5,830,000	375,000
Exercised during the year	–	(767,500)	–	(767,500)
Lapsed during the year	–	–	–	–
Closing balance	6,826,620	740,000	6,826,620	740,000

(b) Details of share options exercised during the year

	\$	\$	\$	\$
Proceeds from shares issued	–	–	–	–
Fair value as at issue date of shares issued during the year	–	–	–	–

(c) Details of share options outstanding as at end of year

Expiry Date and Exercise Price	Grant Date	No.	No.	No.	No.
28 July 2009 @ \$0.50 each	29.07.2002	190,000	190,000	190,000	190,000
28 July 2009 @ \$1.00 each	29.07.2002	175,000	175,000	175,000	175,000
28 July 2009 @ \$1.50 each	27.08.2003	187,500	187,500	187,500	187,500
29 July 2009 @ \$2.00 each	27.08.2003	187,500	187,500	187,500	187,500
16 June 2012 @ \$0.145 each	16.06.2005	5,830,000	–	5,830,000	–
30 September 2013 @ \$0.03 each	17.05.2004	253,693	271,249	253,693	271,249
30 September 2013 @ \$0.07 each	17.05.2004	2,927	2,927	2,927	2,927
		6,826,620	1,014,176	6,826,620	1,014,176

Other employee entitlement provisions

A provision has been made for accumulating annual leave payments that may have to be made to existing employees at the reporting date. (Refer to Note 19.)

NOTE 25: EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 21 August 2005, the Company and Promega Corporation settled their contract dispute. As part of the settlement, Promega will hold a worldwide non-exclusive license to make and sell DNA directed RNA interference based research products. Promega will also receive payment in the form of cash and continued royalties from certain licensees.

On 23 August 2005, the Australian Patent Office completed its review of the Company's Australian patents, and the patents were upheld.

Economic Entity		Parent Entity	
2005	2004	2005	2004
\$	\$	\$	\$

NOTE 26: RELATED PARTY TRANSACTIONS

Transactions between 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:

Financial reporting, accounting and company secretarial services paid/payable to Bentley Barton Partners Pty. Ltd., company in which Mr Gary Taylor is a director and has a beneficial interest.

95,890	175,368	95,890	159,633
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At an Extraordinary General Meeting held on 28th August 2003, unsecured loans with accumulated interest from various entities in which Mr Gary Taylor is a director/holds a beneficial interest, have been paid in full by the issue of ordinary shares in the Company. The accumulated interest component connected with these loans were as follows:

–	176,033	–	–
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Interest paid on other unsecured loans from various entities in which Mr Gary Taylor is a director/holds a beneficial interest.

–	6,100	–	6,100
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Legal services paid/payable to Whittens Lawyers & Consultants, a law firm in which Mr Raymond Whitten is the principal and has a beneficial interest.

39,440	36,227	39,440	36,227
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All fees paid to Mr Raymond Whitten as Executive Chairman were paid to Jopela Pty. Ltd. in which he has a beneficial interest.

119,169	–	119,169	–
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Travel services have been supplied to Benitec by Torona Pty. Ltd., trading as Anywhere Travel and Anywhere Travel CBD. Mr Whitten is a director of Torona Pty. Ltd. and has a beneficial interest.

4,688	–	4,688	–
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A sub-underwriting fee was paid/payable to Barbary Coast Investments Pty. Ltd. following the capital raising last year. Mr Raymond Whitten is a director and has a beneficial interest in Barbary Coast Investments Pty. Ltd.

25,000	–	25,000	–
--------	---	--------	---

A sub-underwriting fee was paid/payable to Mr Robert Thomas following the capital raising last year.

12,500	–	12,500	–
--------	---	--------	---

Interest paid on other unsecured loans from an entity in which Mr Raymond Whitten is a director/holds a beneficial interest.

–	13,647	–	13,647
---	--------	---	--------

Economic Entity		Parent Entity	
2005	2004	2005	2004
\$	\$	\$	\$

NOTE 26: RELATED PARTY TRANSACTIONS *continued*

All fees paid to Mr John McKinley as Executive Chairman and Chief Executive Officer were paid to Technology Investment and Management Ltd. and Management Services & Technology Limited in which he has a beneficial interest. These companies were not incorporated in Australia.

400,726	648,811	400,726	–
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Investment banking fees were paid to Cappello Capital Corp., an investment banking firm with which Benitec has an exclusive strategic advisor relationship. Mr Alex Cappello is a director and has a beneficial interest in Cappello Capital Corp.

609,270	–	609,270	–
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NOTE 27: COMPANY DETAILS

The registered office of the Company is:

Benitec Ltd.
Whittens Solicitors
Suite 2 Level 30
133 Castlereagh Street
Sydney NSW 2000

directors' declaration

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 19 to 44 are in accordance with the Corporations Act 2001:
 - a. comply with Accounting Standards and the Corporations Regulations 2001 and
 - b. give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the Company and economic entity;
2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Raymond Whitten



Executive Chairman

Dated this 30th September 2005





independent audit report

RSM Bird Cameron Partners

Chartered Accountants

Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +61 2 9233 8933 F +61 2 9233 8521
www.rsmi.com.au

INDEPENDENT AUDIT REPORT TO THE SHAREHOLDERS OF BENITEC LIMITED

Scope

We have audited the financial report of Benitec Limited for the financial year ended 30 June 2005, comprising the directors' declaration, statement of financial performance, statement of financial position, statement of cash flows and notes to the financial statements.

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the shareholders of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australian and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

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

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

RSM Bird Cameron Partners
RSM Bird Cameron Partners
Sydney, New South Wales

H R Moll
H R Moll
Partner

Dated this 30 day of September 2005

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Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.



additional information for listed public companies

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1.1 Shareholding - Fully Paid Ordinary Shares

a. Distribution of Shareholders Number

Category (size of Holding)	No. of Shareholders
1 – 1,000	141
1,001 – 5,000	606
5,001 – 10,000	320
10,001 – 100,000	464
100,001 – and over	122

b. The number of shareholdings held in less than marketable parcels is 503.

c. The names of the substantial shareholders listed in the holding Company's register as at 23 September 2005 were:

Shareholder	Number of Ordinary Shares	% of Issued Capital
ANZ NOMINEES LTD <CASH INCOME A/C>	15,830,756	10.41
NATIONAL NOMINEES LIMITED	14,890,599	9.79
INVIA CUSTODIAN PTY LIMITED <BLACK A/C>	9,701,550	6.38
BARBARY COAST INVESTMENTS PTY LTD	8,043,501	5.29
INVIA CUSTODIAN PTY LIMITED <WHITE A/C>	7,854,170	5.16

d. All shares have equal voting rights.

e. Twenty Largest Shareholders – Ordinary Shares

Rank	Shareholder	Number of Ordinary Shares	% of Issued Capital
1	ANZ NOMINEES LTD <CASH INCOME A/C>	15,830,756	10.41
2	NATIONAL NOMINEES LIMITED	14,890,599	9.79
3	INVIA CUSTODIAN PTY LIMITED <BLACK A/C>	9,701,550	6.38
4	BARBARY COAST INVESTMENTS PTY LTD	8,043,501	5.29
5	INVIA CUSTODIAN PTY LIMITED <WHITE A/C>	7,854,170	5.16
6	BELL POTTER NOMINEES LTD	6,334,441	4.16
7	GIOVANNI NOMINEES PTY LTD	5,850,147	3.85
8	BARBARY COAST INVESTMENTS PTY LTD <WHITTEN SUPER FUND A/C>	4,870,936	3.20
9	WESTPAC CUSTODIAN NOMINEES LIMITED	3,005,783	1.98
10	KANILO PTY LIMITED	2,800,000	1.84
11	QUEENSLAND INVESTMENT CORPORATION	2,775,252	1.82
12	KHM INVESTMENTS PTY LTD	2,563,249	1.69
13	B-BRIDGE VENTURES I LP	2,439,325	1.60
14	KANILO PTY LIMITED	2,292,515	1.51
15	MR ROBERT BAIN THOMAS	2,021,948	1.33
16	DR MARK KAY	1,951,460	1.28
17	FITEL NOMINEES LIMITED	1,747,785	1.15
18	MORCAT PTY LTD	1,730,000	1.14
19	DEPONENT SERVICES PTY LTD <LAMBERT SUPER FUND A/C>	1,200,000	0.79
20	BUNGEELTAP PTY LTD	1,168,169	0.77
		99,071,586	65.14





1.2 Unquoted Securities

As at the date of this report, the Company has unquoted securities which details are set out on the table below.

Options under the Employee Share Option Plan	10,366,620
Options granted to Directors of the Company	4,750,000
Options granted to the Company's Strategic Advisor	9,190,442
Other options	17,560
	<u>24,324,622</u>

Details of these options are listed in the Directors' Report. There are no other unquoted securities issued by the Company.

2. The names of the Company Co-Secretaries are Ms Sarah Brashears and Mr Raymond Whitten.

3.1 The address of the principal registered office in Australia is:

Benitec Limited
C/- Whittens Solicitors
Suite 2, Level 30 133 Castlereagh Street
Sydney NSW 2000

3.2 The address of the principal office in the US is:

Benitec Limited
2735 Garcia Avenue
Mountain View, CA 94043

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

Computershare Investor Services Pty Ltd
Level 27 Central Plaza One
Brisbane QLD 4000
Australia

5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited. Trading of the Company's securities is also available on the Regulated Unofficial Market (Freiverkehr) on the Frankfurt Stock Exchange, Xetra, the Deutsche Borse AG electronic trading system and the Berlin Bremen Stock Exchange.

6. The Company has no Restricted Securities.

7. Difference in Results Reported to Australian Stock Exchange

The results reported to the Australian Stock Exchange in the preliminary final report do not differ materially from the results reported in these accounts.

8. All options issued are unquoted securities except for 30,420,262 options listed under BLTO.



senior management

Sara M. Cunningham
CHIEF EXECUTIVE OFFICER

Michael J. Catelani, CPA, MBA
CHIEF FINANCIAL OFFICER

Sarah J. Brashears, JD
VICE PRESIDENT, INTELLECTUAL PROPERTY AND LEGAL AFFAIRS

Chandu Ammini, PhD, MBA
DIRECTOR, BUSINESS DEVELOPMENT

tel | +1-650-564-9850

fax | +1-650-564-9851

www.benitec.com

Benitec

Benitec Ltd.
2375 Garcia Avenue
Mountain View, CA 94043
USA