XTL BIOPHARMACEUTICALS LTD

(the "**Company**")

REGISTRATION DOCUMENT

In accordance with Section 35b of the Israeli Securities Law – 5728 - 1968

Registration for Trading

Of

169,183,254 ordinary shares of NIS 0.02 nominal value each, registered in name, of the Company, and up to 16,328,810 ordinary shares resulting from the exercise of 16,328,810 options, not registered, which have been issued to employees of the Company.

The Company's symbol with the Tel-Aviv Stock Exchange Ltd. shall be: **אקסטל**

The Company's shares are listed on the UK Official List and traded on the London Stock Exchange's market for listed securities under the symbol: **XTL**

The Company's securities shall be registered for trading in accordance with the provisions of Chapter E 3' of the Israeli Securities Law – 5728 - 1968, and therefore the Company's reports shall be in English and their contents shall be in accordance with their reporting obligations abroad.

Date: 7 July 2005

Table of Contents

Part One

1.1 The Company

1.1.1	The Company's name in Hebrew:	אקס.טי.אל ביופרמסיוטיקלס בע"מ
1.1.2	The Company's name in English:	XTL Biopharmaceuticals Ltd.
1.1.3	Place of Incorporation:	Israel
1.1.4	Date of Incorporation:	9 March 1993
1.1.5	Type of securities issued by the Company and their amount:	169,183,254 ordinary shares of NIS 0.02 nominal value each.
1.1.6	The Stock Exchange where the Company's securities are listed:	Official List of the London Stock Exchange
1.1.7	The date when the Company's securities were first admitted for trading:	20 September 2000

1.2 Additional Information regarding the Company

1.2.1	The Company's Registered Office:	3 Saphir Street, Kiryat Weizmann Science Park, Ness Ziona 76100
1.2.2	Telephone:	08-9304444
1.2.3	Facsimile:	08-9304445
1.2.4	The Company's securities symbol on the Stock Exchange abroad:	**XTL**
1.2.5	The Company's securities symbol on the Tel-Aviv Stock Exchange:	**אקסטל**
1.2.6	Contact person with regulatory and enforcement bodies of foreign law:	Jonathan Burgin, CFO
1.2.7	Address of such contact person:	3 Saphir Street, Kiryat Weizmann Science Park, Ness Ziona 76100
1.2.8	Contact person with the Israeli Securities Authority:	Ronen Kantor, Adv.
1.2.9	Address of such contact person:	Kantor & Co. – Law Offices Oz House, 14 Abba Hillel Street, Ramat Gan 52506 Telephone: 03-6133371 Facsimile: 03-6133372

1.3 Description of the Shares

1.3.1 The registered share capital of the Company consists of NIS 6,000,000 divided into 300,000,000 ordinary shares of NIS 0.02 nominal value each.

1.3.2 The issued and outstanding share capital of the Company is 169,183,254 ordinary shares. Furthermore, the Company has issued to its employees, under stock option plans, options of the Company exercisable into 16,328,810 ordinary shares.

1.3.3 The shares are registered in the name of the shareholders (some through a registrar company).

1.3.4 Type of shares and principle rights attached to them: ordinary shares, entitling the rights as set out in the Company' Articles of Association attached as part of this Registration Document.

1.3.5 The ordinary shares shall be entitled to participate in any distribution of dividend or bonus shares that shall be declared, if declared after the date of this Registration Document.

1.4 The Approval of the Tel-Aviv Stock Exchange Ltd.

The Tel-Aviv Stock Exchange Ltd. (the "**Exchange**") has granted its approval for the listing for trading of 169,183,254 ordinary shares, representing all the issued and outstanding share capital of the Company, as of the date of this Registration Document, and up to 16,238,810 ordinary shares resulting from the exercise of 16,238,810 options which have been issued to employees of the Company.

The aforesaid approval is not in any way an approval of the details contained in this Registration Document or their credibility or accuracy and it is not deemed as an opinion of the Company or the quality of the securities offered under this Registration Document.

Part Two

The documents attached to this Registration Document are:

1 The Company's Prospectus dated 1 July 2004.

2 Reports and Press Releases for the period from 1 July 2004 and until the date of this Registration Document.

3 The Articles of Association of the Company.

Signature of the Company:

s/_____ 7 July 2005

XTL Biopharmaceuticals Ltd. Date

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 or, if you are not a recipient in the United Kingdom, an appropriately qualified financial adviser.

Applications under the Open Offer may only be made on the enclosed Application Form which is personal to the shareholder(s) named thereon and may not be assigned or transferred, except to satisfy *bona fide* market claims. If you have sold or transferred all of your Ordinary Shares in XTL Biopharmaceuticals Ltd. before 25 June 2004, the date upon which the Company's shares were marked "ex" the entitlement to the Open Offer by the London Stock Exchange, please forward this document, together with the enclosed Application Form with box I duly completed and the enclosed Form of Proxy, or Form of Instruction in the case of holders of Depository Interests, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. However, such documents should not be forwarded to or transmitted in or into the United States, Canada, the Republic of Ireland, Australia or Japan or their respective territories or possessions. If you have sold or transferred only part of your registered holding of Ordinary Shares in XTL Biopharmaceuticals Ltd., please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately and refer to the instructions regarding split applications set out in the Application Form.

A copy of this document, which comprises a prospectus relating to XTL Biopharmaceuticals Ltd. prepared in accordance with the Listing Rules made under section 74 of the Financial Services and Markets Act 2000 for use only in the United Kingdom, has been delivered for registration to the Registrar of Companies in England and Wales as required by section 83 of that Act. Application has been made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares to be admitted to listing on the Official List and to trading on the London Stock Exchange's market for listed securities. It is currently expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on 3 August 2004.

Your attention is drawn, in particular, to the "Risk Factors" set out in Part IV of this document for a summary of certain factors to be considered in connection with an investment in the New Ordinary Shares.

XTL Biopharmaceuticals Ltd.

(incorporated and registered in the State of Israel under the Companies Ordinance [New Version] – 1983 with registered number 52-003947-0)

Open Offer of 56,009,732 New Ordinary Shares at 17.5 pence each incorporating a UK Placing in conjunction with a US Private Placement and an Israeli Private Placement

---

Code Securities Limited is acting exclusively as financial adviser and broker for XTL Biopharmaceuticals Ltd. in relation to the Open Offer and the UK Placing. Code Securities Limited is not acting for, and will not be responsible to, any person other than XTL Biopharmaceuticals Ltd. for providing the protections afforded to clients of Code Securities Limited or for advising any other person on the contents of this document or any transaction or arrangement referred to herein.

Altium Capital Limited, which is authorised and regulated in the United Kingdom by The Financial Services Authority, is acting exclusively as underwriter of the UK Placing and sponsor for XTL Biopharmaceuticals Ltd. in relation to the Open Offer and the UK Placing and for no one else and will not be responsible to anyone other than XTL Biopharmaceuticals Ltd. for providing the protections afforded to clients of Altium Capital Limited or for providing advice in relation to the Open Offer and the UK Placing. Altium Capital Limited, in its capacity as sponsor, has appointed Code Securities Limited as its agent in connection with the listing of New Ordinary Shares. Code Securities is an appointed representative of Altium Capital Limited.

Neither the existing Ordinary Shares, the New Ordinary Shares, the Depositary Interests, nor the Application Forms have been, nor will be, registered under the US Securities Act or under the securities legislation of any state of the United States. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada, from the Israeli Securities Authority in Israel or in the Republic of Ireland, no document in relation to the Open Offer and the UK Placing has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Fundraising, the New Ordinary Shares, the Depository Interests or the Application Forms. Accordingly, the New Ordinary Shares, and the Depository Interests may not, directly or indirectly, be offered, sold, renounced, taken up or delivered within the United States, Canada, the Republic of Ireland, Australia or Japan or offered to, sold to, renounced, taken up or delivered in favour of, or to, a person within the United States or a resident of Canada, Israel, the Republic of Ireland, Australia or Japan.

This document does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or otherwise acquire, any New Ordinary Shares that are the subject of the US Private Placement. The parts of this document that describe the US Private Placement are included herein solely for information purposes. All of the New Ordinary Shares that are acquired in the US Private Placement have been conditionally subscribed for by US accredited investors in transactions believed to be exempt from the registration requirements of the US Securities Act. The New Ordinary Shares that are acquired in the US Private Placement will be subject to restrictions on transfer and may only be reoffered or resold within the United States pursuant to an effective registration statement or an exemption from the requirements of the US Securities Act.

This document does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or otherwise acquire, any New Ordinary Shares that are the subject of the Israeli Private Placement. The parts of this document that describe the Israeli Private Placement are included herein solely for information purposes. All of the New Ordinary Shares that are the subject of the Israeli Private Placement have been conditionally subscribed for by investors qualifying under section 15 of the Israeli Securities Law in transactions exempt from the prospectus requirements of the Israeli Securities Law. The New Ordinary Shares which are acquired under the Israeli Private Placement will be subject to restrictions on transfer and, with certain limited exceptions, may not be (and are not hereby being) reoffered or resold within Israel.

The attention of Overseas Shareholders and other recipients of this document who are residents or citizens of any country other than the United Kingdom is drawn to the section entitled "Overseas Shareholders" at paragraph 8 of Part II of this document.

Notice of an Extraordinary General Meeting of XTL Biopharmaceuticals Ltd., to be held at Jones Day, 21 Tudor Street, London EC4Y 0DJ at 10.00 am on 2 August 2004 is set out at the end of this document. Shareholders will find enclosed a Form of Proxy, or Form of Instruction in the case of holders of Depository Interests, for use at the Extraordinary General Meeting. The Form of Proxy, or Form of Instruction, in the case of holders of Depository Interests, should be completed and returned to the Company's registrars, Computershare Investor Services (Channel Islands) Limited, in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received no later than 10.00 am on 28 July 2004 for holders of Depository Interests or 10.00 am on 31 July for Qualifying Shareholders who are not holders of Depository Interests.

Applications under the Open Offer may only be made on the enclosed Application Form, which is personal to the shareholder(s) named thereon and may not be assigned or transferred, except to satisfy *bona fide* market claims. The Open Offer to Qualifying Shareholders will close at 3.00 pm on 27 July 2004. The procedure for application is set out in the letter from Code Securities Limited in Part II of this document and in the Application Form.

Code Securities Limited

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2004
Record Date for entitlement under the Open Offer	close of business on 25 June
Latest time and date for splitting of Application Forms (to satisfy *bona fide* market claims)	close of business on 23 July
Latest time and date for receipt of Application Forms and payment in full under the Open Offer	3.00 pm on 27 July
Latest time and date for receipt of Forms of Instruction for holders of Depository Interests	10.00 am on 28 July
Latest time and date for receipt of Forms of Proxy	10.00 am on 31 July
Extraordinary General Meeting	10.00 am on 2 August
Dealings in New Ordinary Shares commence	3 August
Credit CREST accounts with Depository Interests	3 August
Definitive certificates for New Ordinary Shares despatched	by 10 August

If you have any queries on the procedure for application under the Open Offer, you should contact Computershare Investor Services PLC, PO Box 859, The Pavilions, Bridgwater Road, Bristol BS99 1XZ (telephone number 0870 702 0100 or, if calling from outside the UK, +44 870 702 0100), quoting the serial number on your Application Form. Computershare Investor Services PLC will not give Shareholders advice on the merits of the Open Offer or as to whether or not Shareholders should take up their entitlement.

The dates set out in the timetable of events above and mentioned throughout this document and in the Application Form. Form of Proxy and Form of Instruction may be adjusted by XTLbio, in which event details of the new dates will be notified to the UK Listing Authority and the London Stock Exchange and, where appropriate, Shareholders.

Exchange Rate Conversion

Unless stated otherwise, the following exchange rates, being the rates prevailing on 30 June 2004, being the latest practicable date prior to publication of this document, have been used in this document:

US$ 1.81 : £1

NIS 8.16 : £1

FUNDRAISING STATISTICS

Issue Price per New Ordinary Share	17.5p
Basis of Open Offer	1 New Ordinary Share for every 2 existing Ordinary Shares
Number of Ordinary Shares in issue at 1 July 2004	112,019,464

	New Ordinary Shares	*Proceeds £*
Total number of New Ordinary Shares to be issued subject to the Open Offer	56,009,732	9,801,703
Number of New Ordinary Shares to be issued pursuant to the UK Placing	32,239,021	5,641,829
Number of New Ordinary Shares to be issued pursuant to the US Private Placement	5,443,087	952,540
Number of New Ordinary Shares to be issued pursuant to the Israeli Private Placement	18,327,624	3,207,334
Total	56,009,732	9,801,703
Number of New Ordinary Shares to be placed firm pursuant to the Fundraising	6,101,811	1,067,817
Number of New Ordinary Shares being placed pursuant to the Fundraising subject to clawback by Qualifying Shareholders under the Open Offer	49,907,921	8,733,886
Total	56,009,732	9,801,708

Net proceeds of the Fundraising to be received by the Company	£8.5 million

DIRECTORS, SECRETARY AND ADVISERS

Directors
Geoffrey Nicholas Vernon (Chairman)
Martin Becker (Chief Executive Officer)
Jonathan Burgin (Chief Financial Officer)
Shlomo Dagan (Chief Scientific Officer)
Glenn Michael Kazo (Chief Business Officer)
Elkan Raphael Gamzu (Non-executive Director)
Ehud Geller (Non-executive Director)
Rustom Kaikhushroo Kathoke (Non-executive Director)
Patricia Anne Smith (Non-executive Director)
Peter Stalker III (Non-executive Director)

Company Secretary
Ronen Kantor

Address and Registered Office
Kiryat Weizmann Science Park
Building 3, 3 Hasapir Street
PO Box 370
Rehovot 76100
Israel

Financial adviser, stockbroker and agent to sponsor
Code Securities Limited
30 St James's Square
London SW1Y 4AL
United Kingdom

Sponsor and underwriter
Altium Capital Limited
30 St James's Square
London SW1Y 4AL
United Kingdom

Legal advisers to the Company in the UK
Jones Day
21 Tudor Street
London EC4Y 0DJ
United Kingdom

Legal advisers to the Company in Israel
Kantor & Co
Shap House
3 Hayetzira Street
Ramat Gan 52521
Israel

Legal advisers to the Company in US
Heller Ehrman White & McAuliffe LLP
4350 La Jolla Village Drive
Suite 700
San Diego
CA 92037
USA

Legal advisers to Code Securities and Altium Capital
Mayer, Brown, Rowe & Maw LLP
11 Pilgrim Street
London EC4V 6RW
United Kingdom

Auditors and reporting accountants
Kesselman & Kesselman
(a member of PricewaterhouseCoopers International Limited)
Trade Tower
25 Hamered Street
Tel Aviv 68125
Israel

Registrars
Computershare Investor Services (Channel Islands) Limited
PO Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW
Channel Islands

Receiving Agent
Computershare Investor Services PLC
PO Box 859
The Pavilions
Bridgwater Road
Bristol BS99 1XZ
United Kingdom

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

''Act''	the UK Companies Act 1985, as amended
''Admission''	admission of the New Ordinary Shares (i) to listing on the Official List and (ii) to trading on the London Stock Exchange's market for listed securities becoming effective in accordance with paragraph 7.1 of the Listing Rules and the Standards respectively
''Altium Capital''	Altium Capital Limited
''Application Form''	the application form relating to the Open Offer being sent to Qualifying Shareholders with this document
''Articles''	the articles of association of the Company
''BST''	British Summer Time
''Code Securities''	Code Securities Limited
''CREST''	the relevant system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations
''CRESTCo''	CRESTCo Limited, the operator of CREST
''Cubist''	Cubist Pharmaceuticals, Inc.
''Daily Official List''	the Daily Official List of the London Stock Exchange
''Depository Interests''	a receipt recognising an underlying interest in Ordinary Shares as more particularly described in Part I below
''Directors'' or ''Board''	the board of directors of XTLbio at the date of this document whose names are set out in paragraph 5.1 of Part VI of this document
''Directors' Israeli Subscriptions''	the subscriptions of certain Directors more particularly set out in Part 1 of this document
''Directors' Subscriptions''	together, the Directors' Israeli Subscriptions and the Directors' US Subscriptions
''Directors' Undertakings''	the irrevocable undertakings of the Directors to take up or not to take up part, or, as the case may be, all of their entitlements as Qualifying Shareholders under the Open Offer, details of which are set out in paragraph 5.5 of Part VI of this document
''Directors' US Subscriptions''	the subscriptions of certain Directors more particularly set out in Part 1 of this document
''Extraordinary General Meeting'' or ''EGM''	the extraordinary general meeting of XTLbio convened for 10.00 am on 2 August 2004 (or any adjournment of it), notice of which is set out at the end of this document
''Firm Placed Shares''	the 6,101,811 New Ordinary Shares in respect of which irrevocable undertakings not to apply under the Open Offer have been received by Code Securities and the Company
''Form of Instruction''	the form pursuant to which Depository Interest holders can instruct the Registrars to vote at the EGM in respect of their beneficial holdings of Ordinary Shares in the Company
''Form of Proxy''	the form of proxy for use at the EGM being sent to Qualifying Shareholders with this document
''Fundraising''	collectively, the Open Offer incorporating the UK Placing in conjunction with the US Private Placement and the Israeli Private Placement
''GAAP''	generally accepted accounting principles
''Group''	the Company and XTL Biopharmaceuticals, Inc., its wholly owned US subsidiary

"HepeX^{TM}-B Collaboration"	the agreement dated 2 June 2004 between the Company and Cubist, as more particularly described in Part III of this document
"International Subscription Agreement"	the conditional agreement dated 30 June 2004 between, *inter alia*, certain Israeli Institutional Investors and US accredited investors, and the Company under which conditional subscriptions have been received for 23,770,711 New Ordinary Shares at the Issue Price pursuant to the Israeli Private Placement and the US Private Placement, as more particularly described in paragraph 10(c) of Part VI of this document
"Irrevocable Undertakings"	the irrevocable undertakings from certain shareholders of the Company holding 11,528,500 Ordinary Shares in aggregate not to take up their entitlements as Qualifying Shareholders under the Open Offer
"Israel"	the State of Israel
"Israeli Act"	the Israeli Companies Law 1999, as amended
"Israeli Institutional Investor"	an investor that qualifies as one of the investors listed in Supplement A of Section 15 A(b)(1) of the Israeli Securities Law
"Israeli Placement Agent Agreement"	the placement agent agreement dated 30 June 2004 between Clal Finance Underwriting Ltd, Apex Underwriting Ltd and the Company, as more particularly described in paragraph 10(d) of Part VI of this document
"Israeli Placement Agents"	Clal Finance Underwriting Ltd and Apex Underwriting Ltd
"Israeli Private Placement"	the conditional private placement in Israel of 18,327,624 New Ordinary Shares at the Issue Price
"Israeli Securities Law"	the Israeli Securities Law 1968, as amended
"Issue Price"	the price of 17.5p per New Ordinary Share payable under the Open Offer, the UK Placing, the US Private Placement and the Israeli Private Placement
"Listing Rules"	the rules and regulations made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 (as amended from time to time)
"London Stock Exchange"	London Stock Exchange plc
"New Ordinary Shares"	56,009,732 new Ordinary Shares proposed to be issued pursuant to the Fundraising
"NIS"	New Israeli Shekels, the lawful currency of Israel
"Official List"	the Official List of the UK Listing Authority
"Open Offer"	the conditional invitation by Code Securities, on behalf of the Company, to Qualifying Shareholders to apply for New Ordinary Shares at the Issue Price on the terms and conditions set out in this document and the accompanying Application Form
"Ordinance"	Israeli Companies Ordinance [New Version] – 1983
"Ordinary Shares"	ordinary shares of NIS 0.02 each in the share capital of XTLbio
"Overseas Shareholders"	Shareholders who are resident in, or who are citizens of, or who have registered addresses in, territories other than the United Kingdom (including, without limitation, Shareholders who are US persons)
"Qualifying Shareholders"	Shareholders (other than US persons and certain other Overseas Shareholders) on the register of members of the Company at the Record Date
"Receiving Agent"	Computershare Investor Services PLC
"Record Date"	close of business on 25 June 2004
"Registrars"	Computershare Investor Services (Channel Islands) Limited
"Regulation D"	Regulation D promulgated under the US Securities Act
"Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755) including any modifications, re-enactment or substitute regulations for the time being in force

''Resolutions''	the resolutions proposed in the notice of EGM set out at the end of this document
''Share Option Schemes''	the Company's share option schemes, as more particularly described in paragraph 6 of Part VI of this document
''Shareholders''	holders of Ordinary Shares
''Standards''	the requirements contained in the publication ''Admission and Disclosure Standards'' dated April 2002 containing, *inter alia*, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's markets for listed securities
''ThinkEquity''	ThinkEquity Partners LLC, the placement agent under the US Private Placement
''UK'' or ''United Kingdom''	the United Kingdom of Great Britain and Northern Ireland
''UK Placing''	the conditional placing by Code Securities on behalf of the Company of 28,536,680 New Ordinary Shares at the Issue Price, subject to clawback to satisfy valid acceptances under the Open Offer, and the conditional placing of 3,702,341 Firm Placed Shares at the Issue Price
''UK Placing and Open Offer Agreement''	the conditional agreement dated 1 July 2004 between the Company, Altium Capital and Code Securities, details of which are set out in paragraph 10(a) of Part VI of this document
''UKLA'' or ''UK Listing Authority''	the United Kingdom Listing Authority, being the Financial Services Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
''uncertificated'' or ''uncertificated form''	recorded on the relevant register or other record of the share or other security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST
''US accredited investor''	an ''accredited investor'', as defined in Rule 501(a) under the US Securities Act, that is also a US person
''US person''	a ''US person'', as defined in Rule 901 under the US Securities Act
''US Placement Agent Agreement''	the placement agent agreement dated 30 June 2004 between ThinkEquity and the Company, as more particularly described in paragraph 10(b) of Part VI of this document
''US Private Placement''	the conditional private placement in the United States pursuant to an exemption from the requirements of the US Securities Act of 5,443,087 New Ordinary Shares at the Issue Price
''United States'', ''US'' or ''USA''	the United States of America, its territories and possessions, any state or political sub-division of the United States of America and the District of Columbia and any other areas subject to its jurisdiction
''US GAAP''	generally accepted accounting standards in the US
''US Securities Act''	the United States Securities Act of 1933, as amended
''Weizmann Institute''	the Weizmann Institute of Science, Rehovot, Israel
''XTLbio'' or the ''Company''	XTL Biopharmaceuticals Ltd.
''Yeda''	Yeda Research and Development Company Ltd., the technology transfer company of the Weizmann Institute
''£'', ''pence'', ''Sterling'' or ''pounds sterling''	the lawful currency of the United Kingdom
''$'', ''US$'', ''US dollar'' or ''dollar''	the lawful currency of the United States

PART I

XTL Biopharmaceuticals Ltd.

(incorporated and registered in the State of Israel under the Companies Ordinance [New Version] – 1983 with registered number 52-003947-0)

Directors:

Geoffrey Nicholas Vernon, PhD, MBA *(Chairman)*
Martin Becker, PhD *(Chief Executive Officer)*
Jonathan Burgin, CPA, MBA *(Chief Financial Officer)*
Shlomo Dagan, PhD *(Chief Scientific Officer)*
Glenn Michael Kazo, MSc *(Chief Business Officer)*
Elkan Raphael Gamzu, PhD *(Non-executive Director)*
Ehud Geller, PhD, MBA *(Non-executive Director)*
Rustom Kaikhushroo Kathoke, FCA *(Non-executive Director)*
Patricia Anne Smith, MD *(Non-executive Director)*
Peter Stalker, III *(Non-executive Director)*

Registered Office:

Kiryat Weizmann Science Park
Building 3, 3 Hasapir Street
PO Box 370
Rehovot 76100
Israel

1 July 2004

To Qualifying Shareholders and, for information only, holders of options under the Share Option Schemes

Dear Shareholder,

Open Offer of 56,009,732 New Ordinary Shares at 17.5 pence each incorporating a UK Placing in conjunction with a US Private Placement and an Israeli Private Placement

Your Board announced today that the Company proposes to raise approximately US$15.3 million (£8.5 million) (net of expenses) through an Open Offer incorporating a UK Placing in conjunction with a US Private Placement and an Israeli Private Placement, to be effected by way of an issue of 56,009,732 New Ordinary Shares, each at a price of 17.5 pence.

Pursuant to the Fundraising, 49,907,921 New Ordinary Shares have been placed with institutional investors subject to clawback by Qualifying Shareholders under the Open Offer and 6,101,811 New Ordinary Shares have been placed firm with institutional investors, the Company having received irrevocable undertakings, not to take up entitlements from certain Qualifying Shareholders for this amount.

The purpose of this document is to provide you with details of, and reasons for, the Fundraising and to explain why your Board considers it to be in the best interests of XTLbio and its Shareholders as a whole and to recommend that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, to be held on 2 August 2004, notice of which is set out at the end of this document.

The Fundraising comprises:

- the UK Placing in respect of 32,239,021 New Ordinary Shares at a price of 17.5p each, pursuant to the UK Placing and Open Offer Agreement;
- the US Private Placement in respect of 5,443,087 New Ordinary Shares at a price of 17.5p each, pursuant to the International Subscription Agreement;
- the Israeli Private Placement in respect of 18,327,624 New Ordinary Shares at a price of 17.5p each, pursuant to the International Subscription Agreement; and
- the Open Offer for 56,009,732 New Ordinary Shares at a price of 17.5p each, being the aggregate of the New Ordinary Shares issued pursuant to the UK Placing, the US Private Placement and the Israeli Private Placement.

The Issue Price represents the equivalent of a discount of 1.75p (approximately 9.1 *per cent*) to the closing middle market price of 19.25p per existing Ordinary Share trading on the London Stock

Exchange on 30 June 2004 (the last practicable date prior to the publication of this document). The Directors consider this discount to be appropriate.

The Fundraising is conditional, *inter alia*, on the passing of Resolutions 1 and 2 as set out in the notice of EGM, which forms part of this document, to be proposed at the Extraordinary General Meeting.

Your attention is drawn, in particular, to the ''Risk Factors'' set out in Part IV of this document for a summary of certain factors to be considered in connection with an investment in the New Ordinary Shares.

Background

XTL Biopharmaceuticals Ltd. is engaged in the development of pharmaceutical products for the treatment of infectious diseases, particularly the prevention and treatment of hepatitis B and C.

The Company currently has two products in clinical development, HepeX^{TM}-B and HepeX^{TM}-C. HepeX^{TM}-B is currently in a phase 2b trial and HepeX^{TM}-C is in a phase 2a trial. Both products are fully human monoclonal antibody (hMAb) products and are being developed to prevent hepatitis B and hepatitis C infection of transplanted livers in hepatitis patients. The Company has licenced HepeX^{TM}-B to Cubist and plans to partner HepeX^{TM}-C prior to commencing phase 3 trials. The Company also has a synthetic small molecules development programme in preclinical development, targeted at treating chronic hepatitis C (HCV-SM).

The Company's competitive advantage lies in its proprietary drug validation tools, in particular those it has developed for viral hepatitis B (HBV) and viral hepatitis C (HCV). These tools enable the Company to accelerate its internal product development programmes, to reduce the risk in its development pipeline and to secure rights from third parties to new drug candidates. This technology has enabled the Company to develop HepeX^{TM}-C, HepeX^{TM}-B and HCV-SM to the stage they are today.

Strategy

XTLbio's strategy is to develop treatments for the prevention of hepatitis re-infection in liver transplants as well as chronic hepatitis infections, which together represent a worldwide market estimated to be over $3 billion per annum. The Company plans to achieve this by:

- leveraging its technology to secure rights to new drug candidates and identify proprietary new drug candidates;
- developing drug candidates through clinical proof of principle (usually phase 2); and
- commercialising clinical development products through co-development or licensing.

Employing the above strategy, XTLbio has:

- identified and developed two new drug candidates to phase 2, HepeX^{TM}-B and HepeX^{TM}-C;
- secured rights to HCV-specific small molecule drug candidates including lead candidates in preclinical development;
- entered into a licensing collaboration with Cubist for the commercialisation of HepeX^{TM}-B;
- acquired exclusive rights to a broad panel of HCV antibodies; and
- secured rights to bacterial targets for use in developing new monoclonal antibody drug candidates.

This strategy has enabled XTLbio to optimise the use of its financial and human resources by:

- retaining a stake in the commercialisation of products for the Company; and
- increasing the number of products XTLbio can develop in its pipeline, thus diversifying the risk of its product portfolio.

Current trading and prospects

The Company's audited financial statements for the 12 months ended 31 December 2003 (the ''Financial Statements'') stated that the Company's liquid cash reserves were $22.4 million. Note 1a to the Financial Statements included the following statement ''continuation of the Company's current operations after utilizing its current cash reserves during 2005, is dependent upon the generation of

additional financial resources, either through agreements for the commercialization of its product portfolio or through external financing''. The Directors believe that the HepeX^{TM}-B Collaboration and the Fundraising provide such additional financial resources.

The financial information on the Company for the three years ended 31 December 2003 has been extracted without material adjustment from the audited financial statements of the Company for the relevant years, and is set out in Part V of this document.

Since the beginning of the current financial year, the Company has announced:

- the establishment of a commercial agreement with Cubist for the licensing and development of HepeX^{TM}-B (the ''HepeX^{TM}-B Collaboration''), further details of which are provided on page 30;
- the grant of orphan drug status from the EMEA for HepeX^{TM}-B; and
- the grant of an hMAb patent for hepatitis C.

The Company also announced the partial clinical hold of one of the dosing arms in its HepeX^{TM}-C phase 2a clinical trial. This followed a patient failing to survive a liver transplant operation. Following an examination of the final *post mortem* report and reports from external consultants, the Directors believe that the causal factors of the incident are unlikely to be related to the administration of HepeX^{TM}-C. The *post mortem* report and other information has been supplied by the Company to the FDA and discussions are continuing regarding the potential resumption of the highest dosing arm of the phase 2a HepeX^{TM}-C clinical trial. The Company is in advanced negotiations with a third party regarding the co-development of HepeX^{TM}-C, whereby the Company would share development costs.

The Company's financial and trading prospects are in line with the Directors' expectations, and the Directors have no reason to believe that this will not continue for at least the rest of the current financial year.

Reasons for the Fundraising and use of proceeds

The proceeds from the Fundraising, in addition to the Group's current cash resouces, will be used by the Company to progress its clinical pipeline to commercialisation, in particular HepeX^{TM}-C and to initiate clinical development of HCV-SM. The Directors believe that the combined effect of the Fundraising and the HepeX^{TM}-B Collaboration position the Company well for advancing negotiations surrounding the licensing/co-development of HepeX^{TM}-C. The Directors believe, based on their current expectations and strategy, that the following expenditure will be required to fully commercialise the Company's lead progammes:

- **HepeX^{TM}-C.** Approximately £22 million is currently expected to be required to fund this product through clinical trials, registration and commercial launch. Currently, the product is in phase 2a trials. As there is no current treatment for liver transplant infection in hepatitis C, the Directors believe that, compared with chronic hepatitis C, where there is an established treatment, the regulatory hurdles may be lower in terms of demonstrating effectiveness of the drug, and hence the trials may involve smaller numbers of patients resulting in lower trial costs. As noted above, the Directors are in advanced negotiations with a third party regarding the co-development of HepeX^{TM}-C whereby the Company would share the development costs with such a third party; and
- **HCV-SM (formerly HepeX^{TM}-C-SM**). Approximately £6 million is expected to be required to fund the current preclinical programme to select an appropriate drug candidate and complete phase 2 clinical trials. Prior to the commencement of any further clinical trials, the Directors intend to seek a partner to develop the product to commercialisation.

Under the HepeX^{TM}-B Collaboration, Cubist will be responsible for the future development and financing of HepeX^{TM}-B.

Principal terms of the Fundraising

The proceeds of the Open Offer and UK Placing, in conjunction with the US Private Placement and the Israeli Private Placement, amounting to approximately US$17.8 million (£9.8 million) (US$15.3 million (£8.5 million) net of expenses), will be used to fund the working capital requirements of the Group and to fund the clinical development of HepeX^{TM}-C and HCV-SM programmes.

The Fundraising comprises:

- the UK Placing in respect of 32,239,021 New Ordinary Shares at a price of 17.5p each, pursuant to the UK Placing and Open Offer Agreement;
- the US Private Placement in respect of 5,443,087 New Ordinary Shares at a price of 17.5p each, pursuant to the International Subscription Agreement;
- the Israeli Private Placement in respect of 18,327,624 New Ordinary Shares at a price of 17.5p each, pursuant to the International Subscription Agreement; and
- the Open Offer for 56,009,732 New Ordinary Shares at a price of 17.5p each, being the aggregate of the New Ordinary Shares issued pursuant to the UK Placing, the US Private Placement and the Israeli Private Placement,

of which:

- 6,101,811 New Ordinary Shares are being placed firm under the UK Placing and the US Private Placement and the Israeli Private Placement; and
- 49,907,921 New Ordinary Shares have been placed under the UK Placing and the US Private Placement and the Israeli Private Placement, subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer.

Pursuant to the UK Placing and Open Offer Agreement, further details of which are set out in paragraph 10(a) of Part VI of this document, Code Securities has conditionally agreed to use its reasonable endeavours to seek to procure placees to acquire 32,239,021 New Ordinary Shares at the Issue Price, failing which Altium Capital will underwrite and as principal, acquire any such New Ordinary Shares for which the placees have not been procured, subject, other than in the case of the Firm Placed Shares, to recall by Qualifying Shareholders in order to meet valid applications pursuant to the terms of the Open Offer referred to below.

Under the International Subscription Agreement, US accredited investors have, subject to certain conditions, committed to subscribe for 5,443,087 New Ordinary Shares at the Issue Price, subject to reduction as a result of take up by Qualifying Shareholders under the Open Offer. These US accredited investors are participating pursuant to an exemption from the registration requirements of the US Securities Act, and arranged pursuant to the US Placement Agent Agreement. ThinkEquity is acting as the Company's exclusive placement agent in relation to the US Private Placement and neither Altium Capital nor Code Securities has any obligations or liabilities with respect thereto. **The US Private Placement is not being underwritten by Altium Capital.**

Under the International Subscription Agreement, Israeli Institutional Investors have, subject to certain conditions, committed to subscribe for 18,327,624 New Ordinary Shares at the Issue Price, subject to reduction as a result of take up by Qualifying Shareholders under the Open Offer. These Israeli Institutional Investors are participating pursuant to a private placement of New Ordinary Shares under Israeli law arranged pursuant to the Israeli Placement Agent Agreement. Clal Financing Underwriters Ltd is acting as the Company's exclusive placement agent in relation to the Israeli Private Placement and neither Altium Capital nor Code Securities has any obligations or liabilities with respect thereto. **The Israeli Private Placement is not being underwritten by Altium Capital.**

In order to give existing Shareholders the opportunity to participate in the issue of the New Ordinary Shares, XTLbio has arranged for Code Securities as its agent to invite applications from Qualifying Shareholders to acquire New Ordinary Shares at the Issue Price under the Open Offer. Qualifying Shareholders may apply for New Ordinary Shares on the basis of:

1 New Ordinary Share for every 2 existing Ordinary Shares

held at the Record Date. The New Ordinary Shares will, when issued and fully paid, rank *pari passu* with the existing issued Ordinary Shares.

Individual entitlements will be rounded down to the nearest whole number of New Ordinary Shares. Fractions of New Ordinary Shares that would otherwise arise will be aggregated and placed with institutional investors with the proceeds retained for the benefit of the Company. Accordingly, Qualifying Shareholders with fewer than 2 existing Ordinary Shares will not be entitled to any New Ordinary Shares.

Qualifying Shareholders should note that the Open Offer is not a rights issue and that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of Qualifying Shareholders who do not apply under the Open Offer. Entitlements

under the Open Offer are not transferable other than to satisfy a *bona fide* market claim and the Application Form, not being a document of title, cannot be traded.

Details of the Open Offer, and the terms and conditions on which it is made, are set out in the letter from Code Securities set out in Part II of this document.

Overseas Shareholders

The attention of Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, is drawn to paragraph 8 of Part II of this document, which sets out the restrictions applicable to such persons. If you are an Overseas Shareholder, it is important that you read that part of this document.

Taxation

Certain information on United Kingdom taxation of capital gains and dividends, stamp duty and stamp duty reserve tax with regard to the Open Offer and UK Placing is set out in paragraph 12 of Part VI of this document.

If you are in any doubt as to your tax position, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser without delay.

CREST

Depository Interests representing Ordinary Shares were admitted to the CREST system with effect from 9 March 2001. Qualifying Shareholders with a CREST participant ID and member account ID will be able to take up Depository Interests in uncertificated form. For Qualifying Shareholders who wish to receive New Ordinary Shares in certificated form, definitive share certificates are expected to be despatched by 10 August 2004. Pending receipt of certificates in respect of such New Ordinary Shares, transfers will be certified against the register of members.

A Depository Interest is a receipt reflecting an interest in an underlying share, in this case, Ordinary Shares, and is an independent security constituted under English law. The Depository Interests are quoted in pounds sterling and the holders of the Depository Interests receive the same cash and benefits as the holders of the Ordinary Shares, save in relation to voting arrangements. Holders of Depository Interests are able to receive notices of meetings of holders of the Ordinary Shares and other notices issued by the Company to its Shareholders. However, this does not offer automatic voting arrangements, and holders of Depositary Interests will need to instruct the issuer of Depositary Interests, currently Computershare Investor Services PLC, to vote on their behalf. This can be done by holders of Depositary Interests registering their voting preference on a Form of Instruction, which will be despatched to them, and returning it to Computershare Investor Services PLC using the address provided on the Form of Instruction.

The use of Depository Interests enables the holder to buy and sell securities using the CREST system. The CREST system is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use certificates or written instruments of transfer. Under English law, non-UK securities such as the Ordinary Shares, cannot be held and transferred directly in the CREST system. Under these arrangements, the underlying shares are held by Computershare Investor Services PLC (the ''Nominee''). The Nominee will hold legal title to the shares as nominee for the holder of the relevant Depository Interest.

Extraordinary General Meeting

Your approval is being sought to confer the necessary authorities on the Directors to implement the Fundraising. Accordingly, there is set out at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held at 10.00 am on 2 August 2004 at the offices of Jones Day, 21 Tudor Street, London EC4Y 0DJ. At this meeting, resolutions will be proposed to:

- confer on the Directors authority under the Articles to allot relevant securities in connection with the Fundraising (covering the New Ordinary Shares) up to an aggregate nominal value of £137,279, representing 50 *per cent* of the total issued ordinary share capital as at 30 June 2004. If approved at the EGM, this authority would expire on the earlier of 15 months after the passing of this resolution and the conclusion of the next annual general meeting of the

Company. Other than in connection with the Fundraising and the Share Option Schemes, the Directors have no present intention of issuing any of the authorised but unissued share capital of the Company;

- confer on the Directors the ability under the Articles to allot (on a non pre-emptive basis) relevant securities for cash up to an aggregate nominal value of NIS1,120,195 in connection with the Fundraising; and
- confer authority on the Company to issue New Ordinary Shares to those Directors who wish to subscribe for New Ordinary Shares pursuant to the US Private Placement and pursuant to the Israeli Private Placement of up to an aggregate of 455,613 New Ordinary Shares. Under Israeli Securities Law, any issuance of shares to a director requires the approval of the shareholders.

The first, third, fourth, fifth, sixth and seventh resolutions set out in the notice of EGM will be proposed as ordinary resolutions and the second resolution will be proposed as a special resolution.

Action to be taken

Qualifying Shareholders will find enclosed an Application Form for use in connection with the Open Offer. Should you wish to apply for any New Ordinary Shares under the Open Offer, you should complete the Application Form in accordance with the instructions thereon and return it, together with the appropriate remittance, to Computershare Investor Services PLC, PO Box 859, The Pavilions, Bridgwater Road, Bristol BS99 1XZ or, by hand only (during normal business hours), to Computershare Investor Services PLC, 7th Floor Jupiter House, Triton Court, 14 Finsbury Square, London EC2A 1BR, in either case so as to be received no later than 3.00 pm on 27 July 2004.

You will also find enclosed with this document a Form of Proxy (or Form of Instruction in the case of holders of Depositary Interests) for use at the Extraordinary General Meeting. Whether or not you propose to attend the Extraordinary General Meeting in person, you are requested to complete and return the Form of Proxy (or Form of Instruction in the case of holders of Depositary Interests), in accordance with the instructions printed thereon as soon as possible and, in any event, so as to be received no later than 10.00 am on 28 July 2004 if you are a holder of Depository Interests, or 10.00 am on 31 July 2004 if you are a Qualifying Shareholder who is not an owner of Depository Interests. Completion and return of a Form of Proxy or Form of Instruction will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish.

For further information concerning voting and subscribing for your entitlements under the Open Offer, contact the proxy solicitor and information agent, Georgeson Shareholder Communications, Inc., a Computershare plc company on 0870 703 6357, or if calling from outside the UK, on +44 870 703 6357.

Further information

Your attention is drawn to the further information set out in Parts II to VI of this document. In particular, your attention is drawn to the summary of risk factors set out in Part IV of this document.

Directors' entitlements

Pursuant to Directors' Undertakings, certain Directors have irrevocably undertaken not to take up their entitlements as Qualifying Shareholders under the Open Offer.

Certain of the Directors have conditionally agreed to subscribe for up to 455,613 New Ordinary Shares in aggregate under the International Subscription Agreement.

Martin Becker, Patricia Smith and Geoffrey Vernon have conditionally agreed to subscribe for 15,763 New Ordinary Shares, 15,763 New Ordinary Shares and 30,000 New Ordinary Shares respectively under the Israeli Private Placement (the ''Directors' Israeli Subscriptions''). In addition, Elkan Gamzu and Peter Stalker III have conditionally agreed to subscribe for 78,817 New Ordinary Shares and 315,270 New Ordinary Shares respectively under the US Private Placement (the ''Directors' US Subscriptions,'' together with the Directors' Israeli Subscriptions, the ''Directors' Subscriptions'').

The Directors' Subscriptions will be subject to clawback by Qualifying Shareholders under the Open Offer and conditional upon your approval at the EGM (the notice of which is set out at the end of this document).

Recommendation

Your Directors, having been so advised by Code Securities in relation to the Open Offer and the UK Placing, believe that the Fundraising, including the Directors' Subscriptions, is in the best interests of XTLbio and its Shareholders as a whole and, accordingly, unanimously recommend you to vote in favour of the Resolutions set out in the notice of Extraordinary General Meeting at the end of this document as they and persons connected with them intend to do in respect of their own beneficial holdings of 1,335,360 Ordinary Shares, representing approximately 1.2 *per cent* of the current issued ordinary share capital of the Company. In providing advice to the Directors, Code Securities has taken into account the Directors' commercial assessment of the Fundraising.

Yours faithfully,

Geoffrey Vernon,
Chairman of the Board

PART II

Letter from Code Securities Limited in respect of the Open Offer

30 St. James's Square
London
SW1Y 4AL

1 July 2004

To Qualifying Shareholders and, for information only, to holders of options under the Share Option Schemes

Dear Sir or Madam,

Open Offer to Qualifying Shareholders of 56,009,732 New Ordinary Shares each to be issued at 17.5 pence

1. Introduction

As explained in the letter from your Chairman set out in Part I of this document, XTLbio today announced the proposed Open Offer incorporating the UK Placing in conjunction with the US Private Placement and the Israeli Private Placement, to be effected by way of an issue of 56,009,732 New Ordinary Shares, each at a price of 17.5 pence, to raise approximately US$15.3 million (£8.5 million) (net of expenses).

Pursuant to the UK Placing and Open Offer Agreement, Code Securities has conditionally agreed to use its reasonable endeavours to seek to procure placees to acquire 32,239,021 New Ordinary Shares at the Issue Price, failing which Altium Capital will, as principal, acquire any such New Ordinary Shares for which placees have not been procured, subject, other than in the case of the Firm Placed Shares, to clawback by Qualifying Shareholders in order to meet valid applications pursuant to the terms of the Open Offer referred to below.

In order to provide Qualifying Shareholders with an opportunity to participate in the issue of New Ordinary Shares, Code Securities has agreed to make the Open Offer by inviting applications from Qualifying Shareholders for New Ordinary Shares at a price of 17.5 pence each, free of expenses.

2. The Open Offer

This Part II contains the formal terms and conditions of the Open Offer. Instructions for completion of the Application Form, splitting and transfer and consolidation of entitlements are set out in the Application Form and are required to be followed by applicants to the extent they are relevant to them.

Subject to the terms and conditions set out below and referred to in the enclosed Application Form, Code Securities, as agent on behalf of the Company, hereby invites Qualifying Shareholders to apply for New Ordinary Shares at a price of 17.5 pence each, free of all expenses and payable in full on application, on the basis of:

1 New Ordinary Share for every 2 existing Ordinary Shares

held at the Record Date, and so in proportion for any greater or lesser number of Ordinary Shares then held. Individual entitlements will be rounded down to the nearest whole number of New Ordinary Shares. Fractions of New Ordinary Shares that would otherwise arise will be aggregated and placed with institutional investors with the proceeds retained for the benefit of the Company. Accordingly, Qualifying Shareholders with fewer than 2 existing Ordinary Shares will not be entitled to any New Ordinary Shares. The number of New Ordinary Shares for which Qualifying Shareholders are entitled to apply is set out in the Application Form.

The New Ordinary Shares issued pursuant to the Fundraising, when issued and fully paid, will rank *pari passu* in all respects with the existing issued Ordinary Shares and for all dividends or other distributions declared, made or paid after the date of issue of such New Ordinary Shares. No

temporary documents of title will be issued. Further details of the rights attaching to the existing Ordinary Shares and the New Ordinary Shares are set out in paragraph 4 of Part VI of this document.

Valid applications up to Qualifying Shareholders' *pro rata* entitlements will be met in full. Qualifying Shareholders may apply for less than their maximum entitlement of New Ordinary Shares if they so wish. Applications in excess of their entitlements will not be met and, if Qualifying Shareholders apply for New Ordinary Shares in excess of their maximum entitlement, they will be deemed to have applied for only their maximum entitlement and the amount paid in respect of such excess application made will be returned to the applicant (at the applicant's risk) without interest.

The existing Ordinary Shares are listed on the Official List and traded on the London Stock Exchange's market for listed securities. Application has been made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective on 3 August 2004 and that dealings for normal settlement in the New Ordinary Shares will commence at 8.00 am on 3 August 2004.

3. Terms and conditions of the Open Offer

The Open Offer is conditional upon the UK Placing and Open Offer Agreement becoming unconditional in all respects by 3 August 2004 (or such later date not being later than 10 August 2004 as may be agreed by the Company, Altium Capital and Code Securities), and Altium Capital and Code Securities not having terminated their obligations thereunder. The UK Placing and Open Offer Agreement is conditional upon, *inter alia*, the satisfaction of the following conditions:

(a) the passing of the Resolutions 1 and 2 to be proposed at the Extraordinary General Meeting; and

(b) Admission having become effective by 8.00 am on 3 August 2004 or such later time and/or date (not being later than 8.00 am on 10 August 2004) as may be agreed by the Company, Altium Capital and Code Securities.

Details of the UK Placing and Open Offer Agreement are set out in paragraph 10(a) of Part VI of this document.

In the event that applications from Qualifying Shareholders are not received for the total number of New Ordinary Shares offered under the Open Offer, the New Ordinary Shares not applied for will be placed with placees by Code Securities under the UK Placing or subscribed for by US accredited investors or Israeli Institutional Investors under the Israeli Subscription Agreement.

Qualifying Shareholders should note that the Open Offer is not a rights issue and that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of Qualifying Shareholders who do not apply under the Open Offer. Entitlements under the Open Offer are not transferable unless to satisfy a *bona fide* market claim and the Application Form, not being a document of title, cannot be traded.

Your right to apply for New Ordinary Shares as set out in this letter shall lapse and no application for New Ordinary Shares shall be considered unless your signed Application Form is submitted in accordance with the provisions of this letter and the Application Form and is received by Computershare Investor Services PLC at the addresses set out below by no later than 3.00 pm on 27 July 2004.

4. Procedure for application and payment

Holders of Certificated Ordinary Shares

The Application Form shows the number of Ordinary Shares registered in your name on the Record Date, your maximum *pro rata* entitlement to participate in the Open Offer and the amount payable if you wish to take up your entitlement under the Open Offer in full. You may apply for less than your maximum entitlement if you so wish.

Qualifying Shareholders who wish to apply for New Ordinary Shares should complete the Application Form in accordance with the instructions printed thereon and return it together with the appropriate remittance, by post or by hand to Computershare Investor Services PLC, PO Box 859, The Pavilions, Bridgwater Road, Bristol BS99 1XZ or by hand only (during normal business hours) to Computershare Investor Services PLC, 7th Floor Jupiter House, Triton Court, 14 Finsbury Square, London EC2A 1BR, in either case, so as to be received no later than 3.00 pm on 27 July 2004. Applications will not be acknowledged and receipts will not

be issued. If you post your Application Form, you are recommended to allow at least four working days for delivery. All documents or remittances sent by or to an applicant, or as he or she may direct, will be sent through the post at his or her own risk. By completing and delivering an Application Form, you (as the applicant(s)):

(i) agree that your application, the acceptance of your application and the contract resulting therefrom shall be governed by, and construed in accordance with, English law; and

(ii) confirm that in making the application you are not relying on any information or representation other than such as may be contained in this document and you, accordingly, agree that no person responsible solely or jointly for this document or any part thereof shall have any liability for any information or representation not contained in this document.

Code Securities reserves the right to treat any applications not strictly complying with the terms and conditions of application as nevertheless valid.

Payments must be made by banker's draft or cheque in pounds sterling drawn on a bank or building society in the United Kingdom which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Company Limited or which has arranged for its cheques and banker's drafts to be cleared through facilities provided for the members of either of those companies and must bear the appropriate sort code in the top right-hand corner. No application will be considered unless these requirements are fulfilled. **Cheques and banker's drafts should be payable to ''The Royal Bank of Scotland plc – a/c XTL Biopharmaceuticals Ltd.'' and crossed ''Account payee''. It is a term of the application that all cheques or other remittances will be honoured on first presentation. Code Securities may elect not to treat as valid any application in respect of which remittances are not so honoured.**

If cheques or banker's drafts are presented for payment before the conditions of the Open Offer are satisfied, application monies will be kept in a separate bank account held to the order of the Company. If the conditions of the Open Offer are not satisfied or waived (as the case may be) on or before 3 August 2004, the Open Offer will lapse and all application monies will be returned to each applicant (at the applicant's risk) as soon as practicable thereafter without interest.

Code Securities, on behalf of the Company, reserves the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to 3.00 pm on 27 July 2004 from an authorised person (as defined in the Financial Services and Markets Act 2000) specifying the number of New Ordinary Shares concerned and undertaking to lodge the relevant Application Form in due course but, in any event, within two days.

By completing, signing and returning the Application Form, you:

(a) agree that all applications, acceptances of applications or contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, English law; and

(b) confirm that, in making the application, you are not relying on any information or representation other than such as may be contained in this document and you agree that no person responsible solely or jointly for this document or any part of it shall have any liability for any information or representation not contained in this document.

Applications for New Ordinary Shares will be irrevocable and may only be made on the Application Form, which is personal to the shareholder(s) named thereon and may not be assigned or transferred other than before 3.00 pm on 23 July 2004 in order to satisfy *bona fide* market claims pursuant to the Rules of the London Stock Exchange. Qualifying Shareholders who have sold or transferred all of their Ordinary Shares prior to 25 June 2004 should forward this document, together with the signed Application Form, with Box I duly completed, and the Form of Proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale was effected for transmission to the purchaser or transferee. If you have sold or transferred part of your registered holding of Ordinary Shares, you should contact your stockbroker, bank or other agent through whom the sale was effected immediately and refer to the instructions regarding split instructions set out in the Application Form. The invitation to apply for New Ordinary Shares under the Open Offer may represent a benefit which can be claimed from you by the purchaser under the Rules of the London Stock Exchange.

If you do not wish to apply for any New Ordinary Shares, do not complete the Application Form. Shareholders are nevertheless requested to complete and return the Form of Proxy in respect of the EGM.

If you have any doubt as to the procedure for application or payment, you should contact Computershare Investor Services PLC, PO Box 859, The Pavilions, Bridgwater Road, Bristol BS99 1XZ (telephone number 0870 7020100 or, if calling from outside the UK, +44 870 702 0100), quoting the serial number on your Application Form. Computershare Investor Services PLC will not give Shareholders advice on the merits of the Open Offer or as to whether or not they should take up their entitlements.

Holders of Depository Interests

The holders of Depository Interests whose details appear on Computershare's register of holders of Depository Interests at the Record Date (''Existing Depository Interest Holders'') will have their entitlement to New Ordinary Shares passed on to them by Computershare in its capacity as depository in accordance with the terms of the deed dated 9 March 2001 (the ''Depository Interest Deed''). The Existing Depository Interest Holders will be entitled to apply for such number of Depository Interests (''New Depository Interests'') as corresponds to the number of New Ordinary Shares that Computershare is entitled to apply for on their behalf under the Entitlement Issue as an Existing Shareholder (the ''Depository Interest Entitlement'').

Procedure for application and payment

CREST sponsored members should refer to their CREST sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply for New Depository Interests of such members held in CREST. CREST members who wish to apply for New Depository Interests in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

(a) General

Subject as provided in section 8 of this Part II in relation to certain Overseas Shareholders, each Existing Depository Interest Holder will receive a credit to his stock account in CREST of his New Depository Interests equal to the maximum number of New Depository Interests for which he is entitled to apply under the Depository Interest Entitlement.

The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the existing Depository Interests held on the Record Date by the Existing Depository Interest Holder in respect of which the New Depository Interests have been allocated.

If for any reason the New Depository Interests cannot be admitted to CREST by, or the stock accounts of existing Depository Interest Holders cannot be credited by 8.00 am BST or such later time as the Company may decide, an equivalent form to the Entitlement and Acceptance Form will be sent out to each Existing Depository Interest Holder in substitution for the New Depository Interests credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Existing Shareholders with Entitlement and Acceptance Forms will apply to Existing Depository Interest Holders who receive forms equivalent to the Entitlement and Acceptance Forms.

CREST members who wish to apply for some or all of their entitlements to Depository Interests should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact Computershare on +44 (0)870 702 0100. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to apply for New Depository Interests as only your CREST sponsor will be able to take the necessary action to make this application in CREST.

(b) USE Instructions

CREST members who wish to apply for New Depository Interests in respect of all or some of their Depository Interest Entitlement in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event (''USE'') instruction to CRESTCo Limited which, on its settlement, will have the following effect:

(i) the crediting of a stock account of Computershare under the participant ID and member account ID specified below, with a number of New Depository Interests corresponding to the number of Depository Interests validly applied for; and

(ii) the creation of a CREST payment, in accordance with the CREST payment arrangements, in favour of the payment bank of Computershare in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of Depository Interests referred to in (i) above.

(c) Content of USE Instructions

The USE instruction must be properly authenticated in accordance with CRESTCo Limited's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

(i) the number of New Depository Interests for which application is being made (and hence the number of New Depository Interests being delivered to Computershare);

(ii) the ISIN of the New Depository Interests. This is ISIN IL0010907298;

(iii) the participant ID of the accepting CREST member;

(iv) the member account ID of the accepting CREST member from which the New Depository Interests are to be debited;

(v) the participant ID of Computershare, in its capacity as a CREST receiving agent. This is 3RA44;

(vi) the member account ID of Computershare, in its capacity as a CREST receiving agent. This is XTLBIO;

(vii) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Depository Interests referred to in (i) above;

(viii) the intended settlement date. This must be on or before 26 July 2004;

(ix) the Corporate Action Number for the Entitlement Issue. This will be available by viewing the relevant corporate action details in CREST;

In order for an application under the Depository Interests Entitlement to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 1.00 pm BST on 26 July 2004.

In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

(i) a contact name and telephone number (in the free format shared note field); and

(ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 26 July 2004 in order to be valid is 1.00 pm BST on that day.

(d) Validity of Application

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 1.00 pm BST on 26 July 2004 will constitute a valid application under the Depository Interest Entitlement.

(e) CREST Procedures and Timings

CREST members and (where applicable) their CREST sponsors should note that CRESTCo Limited does not make available special procedures, in CREST, for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Depository Interest Entitlement. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 1.00 pm BST on 26 July 2004. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(f) Incorrect or Incomplete Applications

If a USE instruction includes a CREST payment for an incorrect sum the Company through Computershare reserves the right:

(i) in the case that an excess sum is paid, to treat the application as a valid application for all the Depository Interests referred to in the USE instruction refunding any unutilised sum to the CREST member in question;

(ii) to reject the application in full and refund the payment to the CREST member in question;

(iii) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of Depository Interests as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question.

(g) Effect of Valid Application

A CREST member who makes or is treated as making a valid application in accordance with the above procedures will thereby:

(i) pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to Computershare's payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);

(ii) request that the Depository Interests to which he will become entitled be issued to him on the terms set out in this document and subject to the Constitution of the Company, the Depository Interest Deed and the agreement relating to Depository Interests between the Company and Computershare dated 9 March 2001;

(iii) agree that all applications and contracts resulting therefrom under the Depository Interest Entitlement shall be governed by, and construed in accordance with, the laws of England;

(iv) represent and warrant that he is not applying on behalf of any Depository Interest Holder, who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of the United States, Canada, Australia, Japan, or the Republic of Ireland and he is not applying with a view to re-offering, reselling, transferring or delivering any of the Depository Interests which are the subject of this application to, or for the benefit of a Depository Interest Holder who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of the United States, Canada, Australia, Japan, or the Republic of Ireland except where proof satisfactory to the Company has been provided to the Company and that he is able to accept the invitation by the Company of any requirement which it (in its absolute discretion) regards as unduly burdensome, nor acting on behalf of any such person on a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for Depository Interests under the Depository Interests Entitlement;

(v) represent and warrant that he is not and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in Section 93 (depository receipts) or Section 96 (clearance services) of the Finance Act 1986;

(vi) confirm that in making such applications he is not relying on any information in relation to the Company other than that contained in the Prospectus and agrees that no person responsible solely or jointly for the Prospectus or any part thereof or involved in the preparation thereof, shall have any liability for any such other information and further agree that having had the opportunity to read the Prospectus, he will be deemed to have had notice of all the information concerning the Company contained therein; and

(vii) represent and warrant that he is the Existing Depository Interest Holder originally entitled to the New Depository Interests.

(h) Company's discretion as to Rejection and Validity of Applications

The Company may in its sole discretion:

(i) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in paragraphs (c), (d) and (g) of this Part II,

(ii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable)) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;

(iii) treat a properly authenticated dematerialised instruction (in this sub paragraph the 'first instruction') as not constituting a valid application if, at the time at which Computershare receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or Computershare have received actual notice from CRESTCo Limited of any of the matters specified in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

(iv) accept an alternative instruction notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for Depository Interests by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by Computershare in connection with CREST.

5. Money Laundering Regulations 2003

The verification of identity requirements pursuant to the Money Laundering Regulations 2003 will apply to applications with a value of £9,000 or greater, or to one of a series of linked applications whose aggregate value exceeds that amount, which are to be settled by way of a third party payment, and verification of the identity of applicant(s) for New Ordinary Shares may be required. If within a reasonable period of time following a request for verification of identity, but in any event by 3.00 pm on 27 July 2004, Computershare Investor Services PLC has not received evidence satisfactory to it, the Company may, in its absolute discretion, elect not to treat as valid the relevant acceptance, in which event the money payable or paid in respect of the acceptance will be returned (without interest and at the applicant's risk) to the account of the drawee bank or building society from which sums were originally debited (but in each case without prejudice to any rights the Company may have to take proceedings in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid).

Alternatively, the Company may elect that the relevant shares will be allotted to the applicant but (notwithstanding any other term of the issue) will not be issued to such applicant until the verification of identity requirements have been satisfied. Within such period, not being less than 20 business days after a request for evidence of identity is despatched to the applicant, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares, and for that purpose the Company will be authorised to act as agent of the applicant. Any proceeds of sale of the relevant shares (net of expenses of sale), which shall be issued to and registered in the name of the purchaser(s), or an amount equivalent to the original payment by the applicant, whichever is the lower, will be held by the Company on trust for the applicant (with no obligation to account for interest), subject to the requirements of the Money Laundering Regulations 2003.

In order to avoid the operation of the provisions of the Money Laundering Regulations 2003 described above, payment should be made by means of a cheque drawn by the applicant named in the enclosed Application Form or (where an Application Form has been transferred and/or split to satisfy *bona fide* market claims in relation to transfers of Ordinary Shares through the market prior to 3.00 pm on 23 July 2004), by the person named in Box I on the Application Form. If this is not

practicable and you use a cheque drawn by a third party or, a building society cheque or a bankers' draft, you should:

(i) write the name and address of the applicant named in the Application Form or, as the case may be, the name of the person named in Box 1 on the Application Form on the back of the cheque, building society cheque or bankers' draft and record the date of birth of that person;

(ii) if a building society cheque or bankers' draft is used, ask the building society or bank to endorse on the cheque or draft the name and account number of the person whose building society or bank account is being debited;

(iii) if you are making the application as agent for one or more persons, indicate on the Application Form whether you are a United Kingdom or EU regulated person or institution (e.g. a bank or broker), and specify your status. If you are not a United Kingdom or EU regulated person or institution, you should contact Computershare Investor Services PLC on telephone number 0870 702 0100 (or, if you are calling from outside the United Kingdom, +44 870 702 0100) and seek guidance; and

(iv) if you deliver the Application Form by hand, bring with you the appropriate photographic evidence of identity, such as a passport or driver's licence.

In any event, if it appears to Computershare Investor Services PLC that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the applicant appears to be acting will be required. Neither Computershare Investor Services PLC, Code Securities, Altium Capital nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of any discretion to require verification or as a result of any sale of relevant shares.

By lodging an Application Form, Qualifying Shareholders undertake to provide evidence of their identity at the time of lodging the Application Form, or, at the absolute discretion of the Company, Code Securities and Altium Capital, at such specified time thereafter as may be required to ensure compliance with the Money Laundering Regulations 2003.

6. Settlement and dealings

Application has been made to the UK Listing Authority and the London Stock Exchange for the New Ordinary Shares to be admitted to listing on the Official List and to trading on the London Stock Exchange's market for listed securities. Subject to the UK Placing and Open Offer Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms, the New Ordinary Shares will be registered, free from stamp duty, in the names of the Qualifying Shareholders and placees acquiring them.

Qualifying Shareholders with a CREST participant ID and member account ID will be able to take up Depository Interests representing entitlements to New Ordinary Shares in uncertificated form. For Qualifying Shareholders who wish to receive New Ordinary Shares in certificated form, definitive share certificates will be despatched by 10 August 2004. Pending receipt of certificates in respect of such New Ordinary Shares and Depository Interests, transfers will be certified against the register of members. No temporary documents of title will be issued.

It is expected that Admission will become effective and dealings in the New Ordinary Shares, for normal settlement, will commence on 3 August 2004. Subject to the fulfilment of the conditions of the Open Offer and UK Placing, the New Ordinary Shares will be registered in the names of Qualifying Shareholders validly applying for them and it is expected that share certificates (if required) in respect of the New Ordinary Shares to be issued under the Open Offer will be despatched to relevant Shareholders by 10 August 2004 by first class post at their own risk.

7. Taxation

The attention of Shareholders is drawn to paragraph 12 of Part VI of this document. Shareholders who are in any doubt as to their tax position should consult a professional adviser.

8. Overseas Shareholders

(a) General

The making of the Open Offer to Shareholders who have registered addresses outside the United Kingdom or who are citizens or residents of countries other than the United Kingdom may be affected by the laws or regulatory requirements of the relevant jurisdiction.

No person receiving this document and/or an Application Form in any territory other than the United Kingdom may treat it or them as constituting an invitation or offer to them, nor should they in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to them and such Application Form could lawfully be used without contravention of any registration or other legal or regulatory requirements.

Persons (including, without limitation, nominees and trustees) receiving an Application Form should not, in connection with the Open Offer, distribute or send it in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If an Application Form is received by any person in any such jurisdiction or by the agent or nominee of such a person, he must not seek to take up the New Ordinary Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form into any such jurisdiction whether pursuant to a contractual or legal obligation or otherwise should draw the attention of the recipient to the contents of this section 8. The Company reserves the right to reject a purported subscription for New Ordinary Shares on an Application Form from Shareholders in any such jurisdiction or persons who are acquiring the New Ordinary Shares for resale in any such jurisdiction.

Any persons outside the United Kingdom wishing to accept the Open Offer must satisfy themselves as to the full observance of the laws of any relevant jurisdiction in connection with it, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory. Any Shareholders who are in any doubt as to their position should consult their professional adviser.

All payments must be made in pounds sterling in accordance with paragraph 4 above.

The attention of Shareholders who are not resident in, or who have registered addresses outside, the United Kingdom is drawn to sub-paragraphs (b) to (f) below.

(b) United States and Canada

Neither the New Ordinary Shares, the Depository Interests nor the Application Form have been, or will be, registered under the US Securities Act, or under the securities legislation of any state of the United States and the relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada and, except in a transaction which is exempt from the registration requirements under the US Securities Act and any applicable state securities law or Canadian securities law, neither the New Ordinary Shares, the Depository Interests nor Application Forms may be offered, sold, renounced, taken up or delivered within the United States or Canada.

Accordingly, the Open Offer is not being made in the United States or Canada or to US persons and Application Forms are not being sent to any Shareholder with a registered address in the United States or Canada. This document has not been sent to Shareholders with registered or mailing addresses in the US or Canada and does not constitute an offer or an invitation to subscribe for or otherwise acquire New Ordinary Shares, or Depository Interests.

Application Forms will not be accepted from any person who does not give (A) the representations and warranties in the Application Form that (i) the Application Form is not being submitted from, and the decision to purchase New Ordinary Shares was not made in, the United States, (ii) the person submitting the Application Form is not a US person and is not acting on behalf of or for the account or benefit of a US person or a person in the United States, and (iii) such person is not applying for the New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, in or into the United States or to or on behalf of or for the account or benefit of a US person or a person in the United States, of the New Ordinary Shares or Depository Interests, and (B) such other representations, warranties and covenants as the Company may in its discretion determine to be advisable to ensure compliance with applicable laws. The Company may refuse to authorise the issuance of New Ordinary Shares or other securities to any person failing to satisfy the foregoing requirements.

Envelopes containing Application Forms should not be postmarked or otherwise despatched from the United States or Canada. The Company reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed in, postmarked or otherwise despatched from the United States or Canada, or that provides an address in the United States or Canada for the delivery of definitive certificates for New Ordinary Shares. The Company will not be bound to allot or issue New Ordinary Shares, Depository Interests or the Application Forms under the Open Offer to any person with an address in the United States or Canada in whose favour New Ordinary Shares, the Depository Interests or the Application Forms may be

transferred to satisfy *bona fide* market claims in relation to market purchases pursuant to the rules of the London Stock Exchange prior to the Ordinary Shares being marked ''ex'' the Open Offer.

In this context, ''United States'' has the meaning given to it in the ''Definitions'' section of this document and ''Canada'' means Canada, its territories and possessions and other areas subject to its jurisdiction.

(c) The Republic of Ireland

In order to comply with the laws of the Republic of Ireland, no Application Forms will be sent to Shareholders with registered or mailing addresses in the Republic of Ireland.

(d) Australia

No prospectus in relation to the New Ordinary Shares, the Depository Interests or the Application Forms has been, nor will be, lodged with, or registered by, the Australian Securities and Investments Commission. A person with a registered or mailing address in Australia may not:

(i) directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe for or buy or sell, any New Ordinary Shares or Depository Interests; or

(ii) distribute any draft or definitive document in relation to any such offer, invitation or sale

in the Commonwealth of Australia, its territories or possessions (''Australia'') or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such corporation or entity located outside Australia).

Accordingly, no offer of, or invitation to apply for any New Ordinary Shares or Depository Interests is being made under this document to Shareholders with registered addresses in, or residents of, Australia and no Application Forms will be sent to such Shareholders in Australia. New Ordinary Shares which such Shareholders would otherwise be entitled to apply for will be aggregated and placed with institutional investors under the UK Placing and the proceeds retained for the benefit of the Company.

Application Forms will not be accepted from any Shareholder who does not give the representation and warranty in the Application Form that it is not applying for New Ordinary Shares, or Depository Interests from within Australia and is not applying for New Ordinary Shares, or Depository Interests with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of such New Ordinary Shares to or for the benefit of or on behalf of any person within, or a resident of, Australia.

(e) Japan

The relevant clearances have not been and will not be obtained from the Ministry of Finance of Japan and no prospectus has been or will be lodged with, or registered by, the Ministry of Finance of Japan.

Accordingly, no offer of, or invitation to apply for New Ordinary Shares or Depository Interests is being made under this document to Shareholders with registered addresses in, or residents of, Japan and no Application Forms will be sent to such Shareholders in Japan.

(f) Shareholders resident in other overseas territories

Shareholders resident in other overseas territories should consult their professional adviser as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to take up their New Ordinary Shares.

9. Further information

Your attention is drawn to the additional information set out in Parts III to VI of this document and to the terms and conditions set out in the enclosed Application Form.

Yours faithfully,

Christopher Collins
Chief Executive Officer
Code Securities Limited

PART III

INFORMATION ON THE GROUP

INTRODUCTION

XTL Biopharmaceuticals Ltd. is engaged in the development of pharmaceutical products for the treatment of infectious diseases, particularly the prevention and treatment of hepatitis B and C.

The Company currently has two products in clinical development, HepeX^{TM}-B and HepeX^{TM}-C. HepeX^{TM}-B is currently in a phase 2b trial and HepeX^{TM}-C is in a phase 2a trial. Both products are fully human monoclonal antibody (hMAb) products and are being developed to prevent hepatitis B and hepatitis C re-infection of transplanted livers in hepatitis patients. The Company has licensed HepeX^{TM}-B to Cubist and plans to partner HepeX^{TM}-C prior to commencing phase 3 trials. The Company also has a synthetic small molecules development programme in preclinical development, targeted at treating chronic hepatitis C (HCV-SM).

The Company's competitive advantage lies in its proprietary drug validation tools, in particular those it has developed for viral hepatitis B (HBV) and viral hepatitis C (HCV). These tools enable the Company to accelerate its internal product development programmes, to reduce the risk in its development pipeline and to secure rights from third parties to new drug candidates. These tools have already enabled XTLbio to develop HepeX-B and HepeX-C to their current stages.

XTLbio's continuing strategy is to develop treatments for the prevention of hepatitis re-infection in liver transplants as well as chronic hepatitis infections, which together represent a worldwide market estimated to be worth over $3 billion per annum. The Company plans to achieve this by:

- leveraging its technology to secure rights to new drug candidates and identify proprietary new drug candidates;
- developing drug candidates through clinical proof of principle (usually phase 2); and
- commercialising clinical development products through co-development or licensing.

Employing the above strategy, XTLbio has:

- identified and developed two new drug candidates to phase 2, HepeX^{TM}-B and HepeX^{TM}-C;
- secured rights to HCV-specific small molecule drug candidates including lead candidates in preclinical development;
- entered into a licensing collaboration with a US biotechnology company for the commercialisation of HepeX^{TM}-B;
- secured rights to bacterial targets for use in developing new monoclonal antibody drug candidates; and
- acquired exclusive rights to a broad panel of HCV antibodies.

This strategy has enabled XTLbio to optimise the use of its financial and human resources by:

- retaining a stake in the commercialisation of products for the Company; and
- increasing the number of products XTLbio can develop in its pipeline, thus diversifying the risk of its product portfolio.

XTLbio has recently entered into a licensing agreement for HepeX^{TM}-B with Cubist, a Nasdaq-listed company with a launched anti-infective product. XTLbio is currently in discussions to partner HepeX^{TM}-C, its second clinical candidate, for use in the prevention of re-infection in HCV-infected liver transplant patients. The Directors expect the Company to file an IND with the FDA by the end of 2004 for the Company's lead small molecule drug candidate for the treatment of chronic hepatitis C. Following this submission, phase 1 trials are expected to commence in the first half of 2005.

XTLbio was incorporated in Israel in March 1993 and commenced operations in November 1993. The Company was established to commercialise technology developed at the Weizmann Institute. The technology has been exclusively licensed to XTLbio by Yeda. XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange's market for listed securities under the symbol ''XTL''.

DRUG CANDIDATES AND DEVELOPMENT PROGRAMMES

XTLbio Product Development Pipeline

The Company currently has two products in clinical trials, a further two products at the preclinical stage of development and one research programme, each of which are shown in the table below.

XTLbio development pipeline

Product	*Indication*	*Active Ingredient*	*Status*	*Regulatory*
HepeX™-B	HBV infection associated with liver transplants	Combination of two hMAbs	Phase 2b ongoing in liver transplant patients: 45 patients, 3 dosing arms	Under US IND. Orphan drug status granted in EU and US
HepeX™-C	HCV infection associated with liver transplant	Single hMAb	Phase 2a ongoing in liver transplant patients: 24 patients, 6 dosing arms	Under US IND
HepeX™-C supplementary antibody	HCV infection associated with liver transplant	hMAb	Preclinical; to be added to HepeX™-C	Preclinical. IND to be filed by end of 2004.
HCV-SM	Chronic hepatitis C	Small molecules	Preclinical	Preclinical. IND to be filed by end of 2004.

Products in Clinical Development

HepeX™-B

XTLbio's HepeX™-B is a fully human monoclonal antibody therapeutic which binds to the HBV surface antigen (HBsAg). The product consists of two hMAbs selected from a large panel of high-affinity antibodies based on their ability to neutralise HBV in the Company's proprietary Trimera™ model for HBV. It is currently in a phase 2b trial, which includes 45 patients in 3 dosing arms and is being conducted under a US investigational new drug (IND) application in several centres in the US, Europe and Israel. Orphan drug status has been granted for HepeX™-B in the US and Europe. Results of this study are currently anticipated towards the end of 2004.

Pursuant to the HepeX™-B Collaboration, Cubist will be responsible for the future development and financing of HepeX™-B.

The Directors believe that preventing HBV re-infection after liver transplantation is approximately a US$100 million per annum market opportunity worldwide. As is the case with HCV, if HBV patients are left untreated, re-infection of the healthy transplanted liver will almost certainly occur following transplant. Currently, polyclonal preparations (human plasma-derived hepatitis B immuno-globulins binding to the HBV surface antigen (HBlg)) in combination with an anti-viral compound such as lamivudine represent the standard treatment in preventing HBV re-infection of patients who have undergone liver transplants. While clinically effective, polyclonal preparations have three potential limitations:

- high price (up to US$100,000 per patient during the first year) due to high production costs;
- complicated/uncomfortable administration to the patient (intravenous or painful intra-muscular injection); and
- safety concerns over blood-borne viruses or other potentially harmful micro-organisms.

Due to these limitations, and despite the clinical rationale for long-term therapy, there is pressure by the medical community to seek alternatives to the use of polyclonal drugs.

XTLbio's HepeX™-B therapeutic for post liver transplant patients offers the potential for:

- high margins due to lower production costs;
- simple, convenient means of administration to the patient, with less chance of injection-related side effects; and
- less risk of infection for the patient as HepeX™-B is not directly isolated from human blood.

HepeX™-B Phase 1 Clinical Trials

The phase 1 clinical trials for HepeX™-B enrolled 27 chronic HBV patients in total, and were designed to study the safety and anti-HBsAg activity of HepeX™-B.

The first part of the study (phase 1a) was conducted to evaluate a single administration of HepeX™-B. 15 patients were recruited into this part and these were divided into 5 groups, each of which received an intravenous infusion of 1 of 5 doses of HepeX™-B ranging from 0.26 milligrams (mg) to 40 mg. HBV-DNA levels were significantly reduced immediately after infusion of HepeX™-B. These DNA levels returned to normal pre-treatment levels within 24 hrs. HBsAg (a key indicator of HBV presence) levels became undetectable and returned to levels seen pre-treatment within 8 to 15 days. These two observations indicate a decrease in viral load as a result of HepeX™-B administration and the Directors believe the findings support the potential beneficial use of HepeX™-B in hepatitis infections.

The second part of the phase 1 study (phase 1b) was designed to evaluate the safety, tolerability and anti-HBsAg activity of multiple administrations of HepeX™-B. In this study, 12 patients in 4 groups received one infusion per week for 4 weeks of either a 10, 20, 40, or 80 mg dose of HepeX™-B. Following each infusion, HBsAg levels were undetectable and HBV DNA concentrations significantly decreased. The concentrations of both returned to pre-treatment levels by the time of the next weekly infusion.

The results of the phase 1 trial indicated that HepeX™-B was well-tolerated by patients. In addition, significant anti-HBV activity was demonstrated. As a result, a phase 2 study was initiated.

HepeX™-B Phase 2 Clinical Trials

The phase 2 study was designed to evaluate the safety, tolerability, and antiviral effects of various regimens of HepeX™-B in combination with lamivudine as compared with lamivudine alone. A total of 62 patients were studied and these received daily infusions of 10 mg or 40 mg HepeX™-B in combination with 100 mg lamivudine over 52 weeks. The patients were grouped into 5 dosing regimens which all included a 'loading' period of 4 weeks and 'maintenance' periods of 11 months of monthly dosing. The most notable reduction in concentration of HBsAg was observed when dosing was given frequently during the loading period of the study. Lower frequency dosing regimens in the maintenance period (once a month) produced a less notable response.

This phase 2 study demonstrated that maintaining hMAb excess of HepeX™-B suppressed levels of HBsAg in chronic HBV patients and indicated that prophylactic treatment of liver transplant patients with HepeX™-B might be used to maintain low levels of virus in the new livers and in the Directors' view substantiated further clinical investigation.

HepeX™-C

XTLbio's HepeX™-C is an hMAb therapeutic which binds to the HCV envelope (E2). HepeX™-C consists of a single hMAb selected from a large panel of high-affinity antibodies based on its ability to neutralise HCV in the Company's proprietary assays for HCV, such as the Trimera™ model.

HepeX™-C is targeted at preventing liver re-infection in HCV-infected liver transplant patients. A major problem associated with HCV-related liver transplantation is the near universal re-infection of the newly transplanted liver with the virus. There are currently no therapeutic options to prevent re-infection. When the infected liver has been removed, the free-floating virus in the patient's serum re-infects the healthy transplanted liver in a matter of days or weeks. Disease progression in re-infected patients is far more rapid than in chronic HCV patients and, in many cases, another transplant becomes necessary. The Directors believe that the key to successful prevention of re-infection in liver transplant patients is the use of hMAb therapeutics, such as HepeX™-C which has been shown to bind and neutralise the HCV virus in XTLbio's preclinical animal models of HCV infection. The Directors believe preventing this HCV re-infection after liver transplantation represents approximately a US$400 million *per annum* market opportunity worldwide.

HepeX™-C Phase 1 Clinical Trials

Safety and biological activity of HepeX™-C were assessed in a two part phase 1 clinical trial in a total of 40 chronic HCV patients.

In the first part, a phase 1a study, single doses of 0.25, 1.00, 2.50, 10.00 and 40.00 milligrams of HepeX™-C were administered to a total of 15 chronic HCV patients. In 8 out of the 15 patients, HCV-RNA levels were reduced at least by half immediately following infusion which gradually returned to initial levels, indicating anti-HCV activity of HepeX™-C.

This study was followed by a multi-dose phase 1b study designed to determine optimal dosing of HepeX™-C in 25 HCV chronic patients. All 5 doses tested were well tolerated, no drug related serious adverse events were reported and no specific pattern of adverse events noted. Concerning efficacy, 8 out of 25 patients had at least a1 log (90%) reduction in HCV-RNA levels from pre-treatment levels following administration of HepeX™-C. These trials provided strong safety data, as well as a preliminary indication of anti-viral activity in humans.

HepeX™-C Phase 2 Clinical Trials

The Company recently initiated a phase 2a study, designed to evaluate the ability of HepeX™-C to prevent re-infection in HCV patients following liver transplantation. A blinded, placebo-controlled, dose-escalating study is currently being conducted in a total of 24 liver transplant patients receiving six different doses of HepeX™-C.

On 10 May 2004 the Company announced a partial clinical hold of 1 of the 6 dosing arms, after a patient suffering from complications associated with hepatitis C as well as hepatocellulor carcinoma did not survive the transplant operation. While the other 5 dosing arms are continuing in the phase 2a trial, the highest dosing arm was suspended as involvement of HepeX™-C could not be ruled out. The highest dosing arm will be resumed when the Company has received information from the FDA that it is satisfied that this adverse event was not related to HepeX™-C. Following the examination of the final *post mortem* report from the coroner and reports from a haematologist and a transplant surgeon engaged by the Company to review the relevant surgical data and final *post mortem* findings, the Directors believe that the causal factors of this incident are unlikely to be related to the administration of HepeX™-C.

The Company has provided all information available to it to the FDA in connection with this incident, including the external consultant reports and a thorough evaluation of HepeX™-C safety data from ongoing and completed clinical trials. Discussions between the Company and the FDA are continuing concerning the potential resumption of the highest dosing arm of the phase 2a HepeX™-C clinical trial.

Products in preclinical development

HepeX™-C Combination of Two Antibodies

XTLbio has identified and developed an additional hMAb with anti-HCV activity which it has in-licensed from Stanford University.

This additional antibody is currently being evaluated by the Company for activity against viral hepatitis C, with a view to combining it with HepeX™-C. Should the evaluation yield positive results, the Directors expect abbreviated clinical (bridging studies) trials will be required in order to commence a pivotal phase 3 trial of the additional antibody in combination with HepeX™-C. The Directors currently expect that an IND will be submitted to the FDA to begin bridging studies by the end of 2004. This combined antibody approach has been designed to further mitigate risk in the Company's portfolio.

HCV-SM

HCV-SM is a research programme focused on developing small synthetic drug candidates for the inhibition of HCV viral RNA replication. XTLbio has identified two lead candidates (XTL-2125 and XTL-2329) from two distinct chemical series of compounds licensed exclusively to XTLbio from B&C Biopharma Co. Ltd. Each candidate has exhibited activity against HCV in the Company's proprietary *in vitro* and *in vivo* preclinical drug validation systems. In preliminary *in vivo* animal studies, good toxicity profiles have been shown. The Company plans to submit an IND to the FDA by the end of 2004 for the most promising of the molecules in this programme.

The existing first-line chronic HCV therapies are often associated with a 50-60 *per cent* chance of success but is limited by severe side effects, including anaemia, fatigue, hairloss and depression. Due to the relatively limited efficacy and toxicity of this treatment, chronic HCV is still considered an unmet medical need. Current estimates are that worldwide annual sales for all products treating chronic hepatitis C are approximately $3 billion in 2004.

Research programmes

The Company's discovery research activities have been put on hold as part of its strategic review in July 2003. However, the Directors intend to resume investment in the Company's discovery research as soon as resources allow.

The Board anticipates that such resources may become available upon successful completion of a collaboration concerning HepeX^{TM}-C.

The Company's discovery research includes hMAb research programmes focused on bacterial disease. The Directors believe that anti-bacterial prophylaxis with hMAbs may be safer, more effective and less prone to the emergence of resistant strains than other therapeutic approaches.

The Company is developing human monoclonal antibody therapeutics against *Staphylococcus epidermidis* bacteria and gram-negative bacteria such as *Pseudomonas aeruginosa.* XTLbio has generated a panel of antibodies directed against key bacterial targets with the aim of selecting those most effective in neutralising the bacteria *in vivo*.

These bacteria have been chosen because they are life-threatening, carry a large economic burden, and represent a commercial worldwide opportunity estimated to be worth more than $2 billion annually.

LICENSING AND COLLABORATIVE EFFORTS

HepeX^{TM}-B Licensing Agreement

The Company has entered into a licensing agreement with Cubist dated 2 June 2004, under which the Company has granted to Cubist an exclusive, worldwide licence (with the right to sub-licence) to commercialise HepeX^{TM}-B and any other product containing a hMAb or humanised monoclonal antibody or fragment directed at the hepatitis B virus owned or controlled by XTLbio.

In the event that the actual costs incurred in conducting activities necessary or advisable to obtain regulatory approval for HepeX^{TM}-B for the prevention of recurrent hepatitis B infections in liver transplant patients exceed US$33.9 million, any costs in excess shall be borne in equal share by the Company and Cubist, except that the Company may elect to not pay its share but rather have such share plus interest deducted from future royalty and other payments owed to it under the agreement.

Cubist has agreed to pay the Company an initial up front payment of US$1 million upon the signing of the agreement, a further aggregate amount of US$2 million as collaboration support to be paid in installments until the end of 2005 and an additional amount of up to US$3 million upon achievement of certain regulatory milestones.

Under the agreement, the Company is entitled to receive royalties from net sales by Cubist, generally ranging from 10 *per cent* to 17 *per cent*, depending on levels of net sales achieved by Cubist, subject to certain deductions based on patent protection of HepeX^{TM}-B in that territory, total costs of HepeX^{TM}-B development, third party licence payments and indemnification obligations.

Cubist has the right to sub-license HepeX^{TM}-B. The sub-licensee fees to be received by the Company in such cases shall vary according to the territory, the subject of the sub-licence, the patent protection of HepeX^{TM}-B in that territory, total costs of HepeX^{TM}-B development, third party licence payments, indemnification obligations and local competition. For example, where HepeX^{TM}-B is not patent protected and a competing product obtains more than an agreed percentage of the local market, XTLbio would receive no royalties on sales of HepeX^{TM}-B.

Cubist has granted the Company the non-exclusive right of negotiation during the term of the agreement to obtain all or any portion of the rights to manufacture and supply HepeX^{TM}-B or any other product containing an hMAb or humanised monoclonal antibody or fragment directed at the hepatitis B virus owned or controlled by XTLbio. Furthermore, in certain circumstances the Company has the exclusive right to negotiate with Cubist to obtain from Cubist a sub-license to market and sell the HepeX^{TM}-B or such other product in certain territories.

The Company has agreed that during the term of the agreement and for one year thereafter it will not research, develop or commercialise any product containing a human or humanised monoclonal antibody or fragment that is directed to and binds with the hepatitis B virus.

The agreement expires on the later of the last valid patent claim covering HepeX^{TM}-B to expire or 10 years after the first commercial sale of HepeX^{TM}-B on a country-by-country basis.

The Directors believe the licensing of HepeX™-B is consistent with its strategy and releases the Company's resources to pursue its other existing opportunities.

Trimera™ Technology

The Company's strategy in its collaboration arrangements with other biopharmaceutical companies or academic institutions is to secure direct ownership, co-ownership and/or royalty participation in drug candidates and thereby generate significant revenues from its Trimera™ technology.

The Company believes that these types of agreements provide it with valuable rights to new drug candidates which would otherwise require considerable time and cash resources to develop, and offer the third party a faster and more cost effective validation and/or selection of its experimental compounds.

Consistent with its strategy, XTLbio has been able to exploit its Trimera™ technology to gain access to drug candidates and other technology from third parties through licensing and collaborative agreements.

Regarding hepatitis C therepeutics, including HepeX-C and HCV-SM, the Company has agreements with the Bood Centre of the University of Ulm (''Ulm''), Stanford University (''Stanford''), Applied Immunogentics LLC and B&C Biopharma Co., Ltd. (''B&C Biopharma'') which have enabled it to initiate commercial development of its therapeutic portfolio targeting hepatitis C. XTLbio funds certain research and inventions surrounding HCV antibody technology at the University of Ulm in return for access to certain antigens and its animal models. The Company's agreements with Stanford grant XTLbio commercial access to a series of HCV antibodies, and the agreement with B&C Biopharma grants it access to potential HCV small molecule therapeutics. On commercialisation of therapeutics addressing hepatitis C infection, the Company could be obligated to pay total royalties of up to 5 *per cent* on funds received as a result of commercialisation and up to 25 *per cent* of any milestone payments it receives in total to Ulm, Stanford, B&C Biopharma and other third parties from sales made for any single product.

In other disease areas, the Company is currently involved in a collaboration with Biostapro AB to identify drug candidates which target *Staphylococci* infections.

In the event of commercialisation of any pharmaceutical products resulting from this collaboration, the Company could be required to pay to Biostapro AB royalties of up to 4 *per cent* of net sales received on such products and 20 *per cent* of net royalties, licence fees, milestones and other similar payments it receives.

Agreements under Discussion

The Company is in discussions with biotechnology and pharmaceutical companies to enter into various agreements in connection with the Company's products and its Trimera™ technologies. In particular, the Company is in late stage discussions with a potential collaborative partner regarding the commercialisation of HepeX™-C. Although the Directors are confident that attractive collaborations are achievable, these discussions and negotiations may not result in the conclusion of formal agreements with such companies.

The terms of such deals may include the Company receiving one or more of the following: upfront payments, milestone payments and royalties from sales of products subject to these agreements, once clinical development, registration and launch have been successfully completed.

XTLbio TECHNOLOGY

XTLbio's hepatitis and monoclonal antibody research tools enable the Company to:

- generate fully human monoclonal antibody leads;
- validate preclinical leads in a clinically relevant biological system; and
- optimise lead candidates for further development.

XTLbio believes these benefits combine to significantly increase the probability of clinical success, and reduce drug development time providing the Company with a powerful competitive advantage.

The Company's technology has played an instrumental role in developing XTLbio's pipeline to its current stage. The two clinical drug candidates were both developed using the Trimera™ system. In the case of HepeX™-B, the hMAbs were derived from Trimera™ MAb technology and validated using the Trimera™ HBV disease model. The HepeX™-C hMAb was in-licensed as a result of the

Company's ability to validate HCV drug candidates in the Trimera™ HCV model and in the Company's proprietary HCV cell culture system. The Company has also leveraged its HCV preclinical validation tools to in-licence new small molecule antiviral drug candidates (in particular, the Company's HCV-SM programme) and plans to continue gaining access to other candidates in this way.

XTLbio's technology is a method for introducing functional human tissue into a mouse. The Trimera™ technology is a patented, broadly enabling tool whereby murine immune systems are ablated by radiation, and bone marrow is transplanted from genetically immuno-deficient mice to re-enable red blood cell production. The result is the production of ''radiation chimeras''. As these chimeras have no immune system, they are able to accept implanted human cells, without rejection, thereby creating a ''Trimera™''. The resulting mouse can be used:

- to generate hMAbs (the ''Trimera™ hMAb Technology''); and/or
- as a sophisticated animal model of human disease (the Trimera™ Model Technology).

These models can be used for testing various approaches to treat human disease, including the development of new diagnostic, prophylactic and therapeutic products.

Trimera™ hMAb Technology

The Trimera™ hMAb Technology is a method of generating hMAbs from the Trimera™ model. To create the Trimera™ hMAb Technology, chimeric mice are engrafted with human white blood cells (immune cells). A primary immune response can be elicited with the Trimera™ hMab Technology by engrafting human immune cells from people who have not previously encountered the disease-causing agent (these people are said to be 'naive' to the agent) followed by introducing the agent. A 'memory response' is elicited by engrafting donor cells from individuals whose immune systems have already been exposed to the disease-causing agent and then introducing that agent.

When starting with a naive immune system, the resulting primary immune response is less vigorous than with a memory response and in some cases an additional immunogen boost may be required to amplify the immune response. However, a memory response displays a vigorous and rapid specific antibody response. Antibody forming cells can then be harvested from such mice within two weeks and then immortalised by using one of several techniques. Following selection and cloning, the resulting immortalised cells can be isolated and expanded to produce hMAbs specific to the disease-causing agent.

This approach can generate high affinity, fully human MAbs. As they are generated from an existing human immune response, the Directors believe that the resulting fully human MAbs are more likely to be efficacious as therapeutics. To further increase the probability of clinical success, the Trimera™ Model Technology can be used to select those hMAbs which display the best biological activity. XTLbio can use the Trimera™ XTL hMAb Technology to develop internal therapeutic candidates and to co-develop therapeutics with third parties using their drug targets.

Trimera™ Model Technology

The Trimera™ Model Technology, as described in more detail below, enables the rapid and cost-effective testing of drug candidates, by creating a relevant *in vivo* preclinical drug evaluation system through the use of human tissue-based disease models in small animals.

Animal-based HCV infection Model

In vivo animal modelling of human disease can be problematic due to species differences in many biological systems. The use of higher primates with biological systems closest to the human system is restricted due to the expense, limited availability and ethical issues associated with using such animals. In the past few decades, considerable progress has been made in animal modelling aimed at mimicking disease states with the development of transgenic and knockout mice and new strains of immuno-compromised mice able to accept human tissue. Whilst many useful human disease models have been developed using such approaches, several human clinical states have inadequate existing models.

XTLbio has developed the Trimera™ Model Technology to create advanced animal models of human disease for preclinical biological validation of new drug candidates. The Company has developed several models of human diseases focusing mainly on models for HBV and HCV infections. To date, the Company has entered into several collaboration agreements for its HBV and HCV models, whereby it grants access to the disease model, in return for rights to drug candidates.

The lack of small animal models that are suitable for evaluation of agents used to treat infection with HCV severely hinders the assessment of potential new therapies for the disease. In XTLbio's HCV model, the chimeric mice are transplanted with human liver fragments infected *ex-vivo* with HCV. HCV RNA can be detected in mice sera and peaks at approximately day 18 after liver transplantation. The validity of this model for evaluation of anti-HCV agents has been demonstrated by the ability of various anti-HCV compounds including small molecules and anti-HCV hMAbs, to reduce viral loads in HCV-Trimera™ mice in a dose-dependent manner. XTLbio uses the Trimera™ Model Technology for accelerating its internal therapeutic development and as a tool to screen and evaluate third party drug candidates for licensing.

Cell-based HCV infection Models

In addition to its *in vivo* Trimera™ model, the Company has developed a secondary assay for the evaluation of putative anti-HCV drugs. The system is based on cultures of human hepatoma cell-lines (liver cells) which can be infected with HCV *in vitro.* The cell-based system allows the initial screening of a large number of molecules prior, or in parallel to, their evaluation in the Trimera™ model. Feasibility of using this cell-based system for evaluating efficacy of anti viral agents has been demonstrated using interferon, small molecules and anti-HCV E2 human monoclonal antibodies.

The combination of this assay with the HCV Trimera™ model provides a unique set of tools for evaluating the efficacy of potential HCV therapeutics.

MARKETS AND COMPETITION

Hepatitis B

Market Need

Hepatitis B is the most common form of hepatitis and one of the world's leading causes of death. About 5 *per cent* of chronic hepatitis B patients will develop end-stage liver disease, a condition which necessitates liver transplantation (source: ''Hepatitis HIV and your liver'' – Anne Monroe).

Chronic HBV infection occurs in 90 *per cent* of infants infected at birth and 6 *per cent* of people infected after age 5 years (source: Centre for Disease Control). Treatment of chronic hepatitis B is usually initiated in patients with active viral replication and signs or symptoms of liver dysfunction, e.g., elevated liver enzymes, abnormal liver biopsy, or other hepatic abnormalities.

Transplantation for Hepatitis B Disease

End-stage liver disease related to chronic viral hepatitis is the leading indication for orthotopic liver transplantation (OLT) worldwide. OLT for cirrhosis and organ failure due to HBV infections accounts for 5 *per cent* to 10 *per cent* of all adult transplants. In the United States, about 300 patients per year receive transplants for treatment of hepatitis B disease.

Prevention of Reinfection of the Transplanted Liver

Protection of the transplanted liver from recurrent HBV infection is critical to preserving graft function. Life-long HBV prophylactic treatment is probably necessary, since the virus remains in several other body compartments following removal of the infected liver. Hepatitis B infection of the transplanted liver reoccurs rapidly resulting in progressive disease, graft failure, and death. Disease recurrence occurs even more quickly after repeat transplantation. The current worldwide annual market for prevention of HBV following liver transplantation is estimated to be $100 million.

Chronic Hepatitis B – Present Solutions and Limitations

At present, there are three antiviral products available for treatment of chronic hepatitis B:

- interferon 2b (Intron® A, Schering Corporation);
- lamivudine (Epivir HBV®, GlaxoSmithKline plc); and/or
- adefovir dipivoxil (Hepsera™, Gilead Sciences, Inc.).

As seen with other chronic viral infections, prolonged treatment with a single drug may lead to drug resistance. The lack of a completely effective treatment for chronic hepatitis means that many patients develop progressive disease.

HepeX™-B Competing Products in Development for Liver Reinfection

HBIg Monotherapy

One commonly used regimen for HBV prophylaxis consists of daily administration of 10,000 units of HBIg intravenously for 7 days. Thereafter maintenance infusions of 10,000 units of HBIg are administered to maintain a desired serum concentration of antibody.

These HBIg regimens are expensive – first year charges are estimated as being is excess of US $100,000 per patient with subsequent annual charges of over US $50,000 per patient. However, even with continued HBIg therapy, hepatitis B still recurs at a rate of 20 *per cent* to 30 *per cent*. Adverse effects of HBIg include infusion-related events, such as fever, chills, back and chest pain, and the risk of blood-borne infections. Moreover, the availability of plasma-derived products is limited and the cost is high.

Polymerase Inhibitor Monotherapies

Therapeutic alternatives to HBIg that have been explored for post-transplant prevention include interferon, antiviral agents such as lamivudine and adefovir dipivoxil, as well as various therapies administered in combination with HBIg.

Lamivudine is effective in preventing recurrent infection in many transplant patients. Unfortunately, drug resistant strains of virus emerge with continued treatment. These resistant strains can then cause progression leading to graft failure.

Adefovir is used in liver transplant patients who are resistant to existing therapies, and also in liver transplant patients who were lamivudine-resistant prior to the transplant.

HBIg and Lamivudine Combination Therapy

Many transplant centres are now using a combination of HBIg and lamivudine. Preliminary reports suggest an efficacy of greater than 90 *per cent* with combination therapy. Alternative approaches are also being tried including combined use of passive and active prevention.

Hepatitis C

Market Need

Chronic hepatitis C is a serious life-threatening disease, which affects around 170 to 200 million (source: World Health Organisation) people worldwide of which the Company estimates that between 8 to 10 million reside in the US, Europe and Japan. 20-30 *per cent* of chronic hepatitis patients will eventually develop cirrhosis (a progressive liver disease) that may lead to decomposition of the liver or hepatocellular carcinoma (liver cancer). Each year 10,000 to 12,000 people die from HCV in the US alone (source: National Digestive Diseases Information Clearing-House Website). It is estimated that by the end of this decade, the number of deaths due to HCV in the US will surpass the number of deaths due to AIDS (source: Datamonitor). Due to introduction of more advanced and expensive therapy and the increase in the treated population, the worldwide market is currently estimated at $3 billion.

Currently, approximately 50 *per cent* of all liver transplants are received by patients with HCV-induced cirrhosis or hepatocellular carcinoma. In the US, about 1,900 liver transplants attributed to HCV infection are performed annually. Current experience indicates that 100 *per cent* of HCV-related liver transplant patients are re-infected with HCV after transplantation. In most of these cases, the recurrent infection leads to chronic hepatitis. For these patients, there is a need for a therapeutic agent that will prevent re-infection of the transplanted liver. HepeX™-C administration may be used to maintain low levels of circulating virus following liver transplantation and prevent hepatic reinfection and establishment of high levels of viral replication. Such maintenance of viral suppression until patients can tolerate standard antiviral therapy with existing therapeutic approaches may be crucial for successful response to therapy in the post-transplant patient.

Chronic Hepatitis C – Existing Therapeutic Approaches

Interferon alpha was first approved for use against chronic hepatitis C in 1991. At present, the optimal regimen appears to be a 24 or 48 week course of the combination of pegylated Interferon alpha and ribavirin. Since the chemically modified pegylated Interferon alpha has a prolonged half-life, and is more active, it has been replacing standard interferon both as monotherapy and as combination therapy of hepatitis C. Ribavirin is an oral antiviral agent which when added to interferon, increases the sustained response rate by two to three fold. A 24 week course of this combination therapy yields a sustained response rate of approximately 40 to 45 *per cent* in patients

with genotype 1 (the most prevalent genotype in the western world) and a significantly better sustained response with a 48 week course. Despite this improvement in response rates, approximately half of today's patient population in the US and Europe do not respond to therapy and have no therapeutic alternative. In addition, interferon-based therapy is associated with severe side effects, and has significant negative impact on patients' well-being and quality of life over a prolonged period of time.

HepeX™-C – Competing Products in Development

To date, the most notable drug candidates which have demonstrated the ability to reduce HCV in humans are a protease inhibitor developed by Boehringer Ingelheim GmbH (BILN-2061) and a polymerase inhibitor (NM-283) developed by Idenix Pharmaceuticals Inc. Both are in early-stage clinical development. Data on these compounds are limited to just several days, and a small number of patients. The ability to sustain the drug response and the long-term toxicity profile of these drugs in human are still to be demonstrated. NABI, Inc. is currently developing pooled HCIg for application in hepatitis C re-infection post liver transplantation. This product is currently in phase 1/2, and, so far as the Directors are aware, is the only competing product currently being developed to address hepatitis C re-infection in transplanted livers.

INTELLECTUAL PROPERTY

Seeking patent protection for XTLbio and its licensor's intellectual property worldwide is an important part of the Directors' strategy for the Company. XTLbio has sought wide protection for the Trimera™ system and the drug candidates derived from it, both in terms of the territories in which patents have been applied for and in terms of the overall patent strategy.

The Trimera™ system was developed at the Weizmann Institute. Yeda, has obtained broad patent protection for this technology, in conjunction with XTLbio. Yeda has granted XTLbio an exclusive worldwide licence to the Trimera™ patent portfolio. Further details of the licence are set out in Part VI of this document.

The patents and patent applications include those relating to the Trimera™ mouse, its various uses in the production of monoclonal antibodies, gene discovery, drug evaluation and modelling of HBV and HCV infection, as well as patents and applications relating to anti-HBV antibodies. XTLbio obtained licences to a portfolio of patent applications concerning anti-HCV antibodies from the University of Ulm in Germany, and Stanford University. In addition, the Company acquired an exclusive licence to a series of patent applications concerning small molecule therapeutics from B&C Biopharma. The Company also has patent applications concerning a potential HCV vaccine and a unique cell-based system for HCV infection. Altogether, the Company has exclusive rights to 72 patents and patent applications worldwide. 19 patents have been issued, and an additional 2 applications have received notice of allowance, 1 in Canada and 1 in Israel. The issued patents include 10 patents in the US, 3 patents in Israel, 3 patents in Japan and 3 patents in Europe. The patents cover the Trimera™ system, the process for its production and its use to evaluate the efficacy of drugs and to produce human monoclonal antibodies. 3 of the issued US patents and 1 of the issued Japanese patents cover modelling of HBV and HCV infection in the Trimera™ system. In addition, 2 of the issued US patents and 2 of the issued European patents cover anti-HBV antibodies, the components of XTLbio's HepeX™-B product. 1 patent was recently issued in the US covering the Company's anti-HCV antibodies; however, there can be no guarantee that the commercialisation of the Group's products will not infringe third-party rights or that third party licences (if required) can be obtained on acceptable commercial terms.

Several trademarks describing the Company's products have been filed in the US, Europe and Israel: HepeX (for the Company's anti-HBV and anti-HCV product lines) Trimera® and Trimera™ (for the Company's HBV and HCV animal models). Additional trademarks have been filed for the Company's name including XTLbio and its logo "X".

DIRECTORS, SENIOR MANAGEMENT AND SCIENTIFIC ADVISORY BOARD

Directors

Geoffrey N. Vernon, BPharm, PhD, MBA, ChDir

Non-executive Chairman

Dr. Vernon has been the Chairman of XTLbio since 1998 and a Director since September 1996. He is a former executive director of Rothschild Asset Management Ltd., partner of the venture

capital group Advent Limited, and has over 20 years' experience in healthcare and life sciences. Dr. Vernon is chairman and/or non-executive director of a number of quoted and privately owned companies in the UK, US, Germany, Ireland and Israel. He is also a Fellow of the Institute of Directors and one of the first directors in the UK to be admitted as a Chartered Director.

Martin Becker, PhD

President and Chief Executive Officer and Director

Dr. Becker has been with XTLbio since 1994. Before joining the Company, he served as Vice President of Technology, Corporate Business Development, at Syntex Corporation (now Roche Bioscience). From 1980 to 1992, Dr. Becker held various research management positions at Syva Company, the diagnostic subsidiary of Syntex where his last position was Senior Director of Biological Research. In the context of his research position, Dr. Becker was a named inventor on 14 patents covering a wide range of medical diagnostic technologies. Dr. Becker's doctorate in immunology was received from the Weizmann Institute of Science.

Jonathan Burgin, CPA, MBA

Chief Financial Officer and Director

Mr. Burgin has been with XTLbio since 1999. Before joining the Company, he was the Chief Financial Officer at YLR Capital Markets, a leading Israeli investment bank which was publicly traded on the Tel Aviv Stock Exchange. From 1984 to 1997, Mr. Burgin worked at Kesselman & Kesselman, an accounting firm and a member of PricewaterhouseCoopers International Limited. For the last three years of his tenure there, Mr. Burgin served as Senior Manager.

Shlomo Dagan, PhD

Chief Scientific Officer and Director

Dr. Dagan has been with XTLbio since 1994. Before joining the Company, he was Acting Director of Molecular Biology at ImClone Systems. His expertise includes work on cytokine muteines, chimeric, single chain and humanised antibodies. Dr. Dagan also served as Department Head of Clinical Reagents Production at Biomakor from 1974 to 1983, where his group worked on RIA kits, clinical reagents and production of control materials. Dr. Dagan's doctorate in cell biology/ immunology was received from the Weizmann Institute of Science.

Glenn M. Kazo, MSc

Chief Business Officer and Director

Mr. Kazo has been with XTLbio since 1999. Before joining the Company, he was a corporate officer at Focal, Inc., a medical device company (now a unit of Genzyme Corporation). Prior to that, Mr. Kazo held senior management positions at Enzon, Inc., where he was also a founding member. Mr. Kazo headed the steering committee between Enzon and Schering-Plough responsible for the development of Pegylated Interferon, currently the leading drug for treating hepatitis C with 2002 sales exceeding US$1 billion. He currently serves on the board of directors of Prolong Pharmaceuticals, a development-stage biogeneric pharmaceutical company based in the US.

Elkan R. Gamzu, PhD

Non-executive Director

Dr. Gamzu is the principal of enERGetics Biopharmaceutical Consultancy, LLC, a consultancy serving the biotechnology and pharmaceutical industries. As former Vice President of Drug Development at Parke-Davis, Dr. Gamzu was responsible for the clinical and regulatory development of the first drug for the treatment of Alzheimer's Disease to be approved by the US Federal Drug Administration. In addition, he was previously President and Chief Executive Officer of Cambridge NeuroScience, Inc. and also held research management positions in drug discovery with Hoffmann-LaRoche, Inc. Dr. Gamzu is a director of a number of companies in the USA, Israel and France.

Ehud Geller, PhD MBA

Non-executive Director

Dr. Geller has been a Director of XTLbio since May 1996. He is a General Partner of Medica Venture Partners, an Israeli healthcare venture capital (VC) firm. Dr. Geller has also served as President and Chief Executive Officer of Interpharm Laboratories Ltd. (currently a division of

Serono), where he was responsible for listing this start-up company on NASDAQ. Prior to that, Dr. Geller served as Executive VP of Teva Pharmaceutical Industries Ltd, Ikapharm Labs Ltd. and Wyeth Laboratories Ltd.

Rusi K. Kathoke, FCA

Non-executive & External Director

Mr. Kathoke, who is a Chartered Accountant, has been a Director of XTLbio since December 2000. As the Chief Financial Officer of BTG plc since 1986, Mr. Kathoke was responsible for negotiating BTG's employee and management buyout in 1992, for managing its subsequent listing on the London Stock Exchange in 1995, demerging and listing a subsidiary in 1998 and raising further funds from institutional investors. BTG, which is based in London and Philadelphia finds, develops and commercialises technologies, many of which are in the life sciences field. Mr. Kathoke therefore has over 20 years of experience in investing in technology, managing early and development stage companies, in fund raising and in realising value through the creation, protection and commercialisation of intellectual property. He is also a trustee of the Triangle Trust, a charitable foundation established to assist the disabled and disadvantaged.

Patricia A. Smith, B Med Sci, BM BS, MRCP(UK) Dip Pharm Med

Non-executive & External Director

Dr. Smith has been a Director of XTLbio since December 2000. Dr. Smith was a practising physician in hospital cardiology and general medicine for several years before entering the pharmaceutical industry. She has held senior positions in international clinical development and international marketing at Zeneca plc and gained experience in business development and business planning. In 1997, she left her role as UK Marketing Director at Zeneca having been involved in 11 drug registrations and product launches in three years, with annual sales of £125 million, to establish an independent healthcare consultancy working with biotechnology companies, big pharma and investment banks to evaluate healthcare opportunities. Dr. Smith is a director of Bio-Medical Research Ltd, an Irish company that designs and distributes EMS, TENS and fitness equipment and she is CEO of their consumer division (Slendertone). She is also a director of Paratek Pharmaceuticals (USA), an antibiotic development company. Dr. Smith is a member of the Royal College of Physicians (UK).

Peter Stalker III, AB

Non-executive Director

Mr. Stalker has been a Director of XTLbio since January 2004. Mr. Stalker was formerly a Managing Director at E. M. Warburg Pincus and Co. Inc., one of the largest private equity and venture capital firms in the world. During his tenure from 1984 to 1998, he was responsible for overseeing venture-banking investments in the biotechnology, pharmaceutical and specialty chemical industries. In this capacity, Mr. Stalker worked closely with the managements of over 30 portfolio companies, overseeing both private and public financings for more than a dozen biotechnology companies. Currently, Mr. Stalker serves as a director of several privately held companies including OpenSource Asia and Biogenex. In addition, he is actively engaged on the board of a number of national and local not-for-profit organisations including The National Alliance for Hispanic Health, where he is treasurer and member of the executive committee, and the Connecticut chapter of The Nature Conservancy.

Senior Management

Neil Graham, MD, MBBS, MPH

Chief Medical Officer, XTL Biopharmaceuticals, Inc.

Dr. Graham has been with XTLbio since 2002. Before joining the Company, he was Vice President, Clinical Research and Medical Affairs at Tibotec-Virco N.V., a subsidiary of Johnson and Johnson Corporation, involved in the development of treatments for HIV. Prior to that, Dr. Graham worked at GlaxoWellcome, Inc. (now GlaxoSmithKline) as Director of HIV Programs in the US. Before moving to industry, Dr. Graham spent 7 years as a faculty member in Infectious Diseases Epidemiology at Johns Hopkins Medical Institutions in Baltimore. He received his Medical degree, Masters of Public Health and Doctorate in Epidemiology, from the University of Adelaide, Australia.

Scientific Advisory Board

The Company has established an advisory board of physicians and scientists to advise on scientific and technical matters relating to the Company's business. These advisers are:

Norman R. Klinman, MD PhD

Dr. Klinman has been a Member of the Department of Immunology at The Scripps Research Institute and an Adjunct Professor, Department of Biology, at the University of California, San Diego since 1979. Dr. Klinman's awards include the Parke-Davis Award (1976) and the National Institutes of Health Merit Award (1986-1996). His research has dealt with the mechanism by which antibodies are generated. Dr. Klinman received his MD degree from Jefferson Medical College and his PhD degree in immunology from the University of Pennsylvania.

Ronald Levy, MD PhD

Dr. Levy is the Robert K. Summy and Helen K. Summy Professor and Chief of the Division of Oncology at Stanford University School of Medicine. Dr. Levy has been the recipient of the Joseph Steiner Prize (1989), the Ciba-Geigy Drew Award in Biomedical Research (1983) and the Armand Hammer Award for Cancer Research (1982). He was Chairman of the American Cancer Society Study Section on Immunology 1988-1992 and previously served as the Chairman of the Board of Scientific Counselors, Division of Cancer Treatment of the National Institute of Health (1989-1993) Dr. Levy has published numerous articles in the field of immunology. He holds a BA degree from Harvard University and an MD degree from Stanford University.

Jean Francois Bach, MD

Dr. Bach's principal areas of scientific interest are auto-immune diseases, immunotherapy, biology of the thymus and medical genetics. He is Head of the Clinical Immunology Unit and Head of the Immunology Research Laboratories at Necker Hospital and is also Professor of Immunology at the Necker Facility. He is a member of the Council of CNRS and Chairman of the Scientific Council of the French National Cancer League and has published five books focused on immune disorders.

T. Jake Liang, MD

Dr. Liang received his BA, *magna cum laude* from Harvard University in 1980 and MD, *magna cum laude* with special honour from Harvard Medical School in 1984. He completed a residency in Internal Medicine at New York University Medical Center/Bellevue Hospital in 1984-1987 and then a Gastroenterology/Hepatology fellowship at Massachusetts General Hospital/Harvard Medical School in 1987-1990. He was an Assistant Professor of Medicine at Harvard Medical School from 1990 to 1995. In 1995, he became the Chief of Liver Diseases in the intramural programme of the National Institutes of Health. Dr. Liang has served on numerous committees and advisory panels of national and international organisations. Dr. Liang was an Associate Editor of Hepatology and is now an Associate Editor of Gastroenterology. Dr. Liang's research programme focuses on the molecular pathogenesis and mechanisms of virus-host interactions of HBV, HCV and hepatocellular carcinoma.

Richard P. Novick, MD

Dr. Novick is an Investigator at the Skirball Institute of Biomolecular Medicine at NYU Medical Center, New York, NY and a member of its Molecular Pathogenesis Program. Dr. Novick received his MD degree with honors from NYU School of Medicine 1959. Dr. Novick was a Postdoctoral Fellow at the National Institute for Medical Research in London, England, 1961-1962. He was a Special Postdoctoral Fellow at The Rockefeller University, New York, NY from 1963-1965.

EMPLOYEES

As at 31 December 2003, the Company had a total of 55 employees as follows:

	Year ended 31 December		
	2001	*2002*	*2003*
Research and Development	76	65	47
Financial and general management	7	7	6
Business development	2	2	2

The Company maintains a high standard of technical expertise among its staff, with 50 employees holding a degree, 26 of whom have a higher degree, including 16 with PhDs. A significant number of the Company's management and professional staff have had prior experience with biotechnology, pharmaceutical and/or medical product companies.

The average number of full-time employees for the last three financial years was:

Year ended 31 December	*Number*
2001	75
2002	89
2003	68

GRANTS

The Company has received grants from the Office of the Chief Scientist of the Israeli Minister of Trade (''OCS'') as participation in the cost of certain of the Company's projects. Grants received from the OCS as at 31 December 2003 amounted to US$6,926,000. The Company is required to re-pay such grants through the payment of royalties on products resulting from such research and development projects at the rate of 3 to 6 *per cent* per annum until the cumulative amount of royalties paid is equal to 100 *per cent* of the original sum received, the amount varying from one project to another, except in the event of transfer of manufacturing rights, as set out below. As of 1999, all amounts granted by the OCS bear interest at the LIBOR rate.

The Company has undertaken to the OCS to abide by the provisions of the Law for Encouragement of Research and Development in Industry – 1984, which includes an obligation not to transfer the know-how, rights attached to the know-how and the manufacturing rights derived from the research and development to third parties, without the prior approval of the research committee of the OCS. Such approval is not required in order to export any products resulting from such research or development. Approval of the transfer of manufacturing rights under the technology developed may be granted only if the Company abides by all the restrictions on the transfer of know-how and the OCS has the right to increase the cumulative amount of royalties up to 300 *per cent* of the original amounts received in these circumstances.

These grants have been used to fund expenses for the research of HepeX^{TM}-B, HepeX^{TM}-C and other research programmes.

The Company has received the approval of the OCS for the transfer of manufacturing rights of its HepeX^{TM}-B product, under the terms and conditions of the HepeX^{TM}-B Collaboration with Cubist. As a consequence thereof, the Company is obligated to re-pay the grants received from the OCS for the financing of the HepeX^{TM}-B product from any amounts received by the Company from Cubist due to the sales of the HepeX^{TM}-B product, at a percentage rate per annum calculated based on the aggregate amount of grants received from the OCS divided by all amounts invested by the Company in the research and development activities of HepeX^{TM}-B, and up to an aggregate amount of 300 *per cent* of the original amounts received for such project, including interest at the LIBOR rate. As of 31 December, 2003, the aggregate amount received from the OCS for the financing of the HepeX^{TM}-B project was equal to US$4,161,000.

TRADING RECORD

The trading record of XTLbio over the three year period ended 31 December 2003 is set out in Part V of this document, from which the following table has been extracted without material adjustment. This information is not, nor is it intended to be, exhaustive and recipients of this document should read the whole of this document and not just rely on the summarised information below.

	Year ended 31 December		
	2001	*2002*	*2003*
	US$ in thousands		
Research and Development			
Costs	12,206	13,302	13,793
Less Participations	1,133	75	3,229
	11,073	13,227	10,564
General and Administrative			
Expenses	2,982	3,594	3,058
Business development costs	1,067	916	664
Impairment of asset held for Sale			354
Operating loss	15,122	17,737	14,640
Financial income – net	2,448	597	352
Loss for the period	12,674	17,140	14,288

There have been no interruptions in the Group's business in the twelve months prior to the date of this document.

CORPORATE GOVERNANCE

The Company is not required to comply with the Principles of Good Governance and Code of Best Practice (the ''Combined Code'') appended to the Listing Rules but has voluntarily decided to do so in so far as is appropriate having regard to the size and nature of the Company and subject to the provisions of Israeli law and practice.

The Directors have set out below the means by which they apply current best practice corporate governance procedures within the Company.

Board of Directors

The Board comprises four Executive and six Non-executive Directors. The role of Non-executive Directors is to ensure that independent judgement is brought to Board deliberations and decisions.

Rusi Kathoke and Patricia Smith are ''External Directors'' as required under the Israeli Act. According to the Israeli Act, they are elected for a period of three years. All other directors are required to submit themselves for re-election every year.

The Israeli Act also requires both External Directors to be members of the Audit Committee and at least one of them to be a member of the Remuneration Committee. The Board regards these Directors as fulfilling the role of senior independent Directors as specified in the Combined Code.

The Board meets at least five times a year with additional meetings, by teleconference if necessary, when circumstances and urgent business dictate. The Board has adopted a formal schedule of matters specifically reserved to it for decision. These include overall Company strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management and treasury policies and the establishment and monitoring of internal controls. Directors are given appropriate and timely information for each board meeting. At each meeting, the Board reviews the progress of the Company towards its objectives, particularly in respect of the development projects and monitors financial performance against budget. The Chairman ensures that all Directors are properly briefed on issues arising at board meetings. The roles of the Chairman and Chief Executive are kept separate.

Where necessary, training is made available to the Directors to assist them in the performance of their duties, and each has access to the services of the Company Secretary. The appointment and removal of the Company Secretary is determined by the Board as a whole.

The Directors are entitled to seek independent professional advice in furtherance of their duties, if necessary, at the Company's expense. The Board established a Nomination Committee to deal in all matters relating to Board appointments.

Principal Committees

Audit Committee

The Audit Committee comprises of three non-executive Directors. The Audit Committee is chaired by Ehud Geller with Rusi Kathoke and Patricia Smith as members. It has written terms of reference as required by the Israeli Act. The Audit Committee meets at least twice a year and monitors the adequacy of the Company's internal controls, accounting policies and financial reporting. It regularly reviews the results of the ongoing risk self-assessment process, which the Company undertakes, and the Company's interim and annual reports prior to their submission for approval by the full Board. It also provides a forum through which the Company's external auditors report to the Board. The Audit Committee oversees the activities of the Company's internal auditor, sets his annual tasks and goals and reviews his reports. The Audit Committee reviews the objectivity and independence of the external auditors and also considers the scope of their work and fees. Provision is made for the Audit Committee to meet at least once a year with the Company's external auditors in the absence of any member of management.

Remuneration Committee

The Remuneration Committee consists of five non-executive Directors of the Company, currently Geoffrey Vernon as Chairman of the Remuneration Committee, Elkan Gamzu, Ehud Geller, Rusi Kathoke and Patricia Smith. The responsibilities of the Remuneration Committee are to set the Company's overall policy on executive remuneration and to decide the specific remuneration, benefits and terms of employment for each Executive Director, including the Chief Executive, and a number of other senior managers. The objectives of the Remuneration Committee's policies are that Executive Directors should receive compensation, appropriate to their performance, level of responsibility and experience. In order to determine the elements and level of remuneration appropriate to each Executive Director, the Remuneration Committee reviews surveys on executive pay, obtains external professional advice and considers individual performance.

Nominations Committee

This Committee comprises of three non-executive Directors, Ehud Geller as Chairman of the Committee, with Geoffrey Vernon and Rusi Kathoke as members. The Nominations Committee assesses candidates of suitable knowledge, experience and calibre for consideration by the Board as potential Directors of the Company. The candidates, however, are considered by the full Board before appointment.

PART IV

RISK FACTORS

Prospective investors should be aware that an investment in XTLbio involves a high degree of risk and should be made only by those with the expertise necessary to appraise the investment. In addition to the other information in this document, the following risk factors for prospective investors should be considered carefully in evaluating whether to make an investment in XTLbio. Any of these factors could have a material adverse effect on the Group, its financial condition and prospects.

1. Development of Products

Certain of the Company's development programmes are at a relatively early stage of development and in certain cases the drugs/procedures have not yet been tested in humans. Results of preclinical studies and clinical trials are not necessarily indicative of results that may be obtained in subsequent studies or trials. There is a substantial risk of adverse or inconclusive results from preclinical testing or clinical trials which may significantly delay, or halt entirely, the development of some or all of the Company's products.

2. Commercial Agreements

The Company is dependent on the successful conclusion of a number of important arrangements with outside parties as part of its strategy for the research, development, manufacture, commercialisation and marketing of its products. There can be no assurance that the Company will be able to negotiate or continue such arrangements on terms acceptable to the Company or that such relationships will be successful. The loss or termination of any agreement for the development of the Company's products could have a material adverse impact on the Group and its prospects.

3. Regulatory Approval

The development, clinical evaluation, manufacture and marketing of the Company's products are subject to regulation by a number of government and regulatory agencies in various territories. Regulatory approval will be required in all territories within which the Company intends to manufacture and market its products (whether itself or through a partner) and there can be no assurance that any of the Company's products will successfully complete the clinical trial process or that regulatory approvals to manufacture and market these products will ultimately be obtained or obtained on commercially acceptable terms.

The time taken to obtain regulatory approval varies between territories and there can be no assurance that any of the Company's products will be approved in any territory within the timescale envisaged by the Directors, or at all, and this may result in a delay in, or make impossible, the commercial exploitation of the Company's products. Regulatory authorities may impose specific conditions or requirements. Compliance with such conditions or requirements can involve substantial costs and could impact on the Company's ability to commercialise its products.

If regulatory approval is obtained, the product and its manufacture will be subject to continual review and there can be no assurance that such approval will not be subsequently withdrawn or restricted. Changes in applicable legislation or regulatory policies, or discovery of problems with the product, production process, site or manufacture may result in the imposition of restrictions on the product or its sale or manufacture, including withdrawal of the product from the market, or may otherwise have an adverse effect on the Company's business.

4. Failure to Achieve Commercial Success or Acceptance

The success of the Group will depend on market acceptance of its proposed products and there can be no assurance that this acceptance will be forthcoming. Notwithstanding the technical merits of a product developed by the Group, there can be no guarantee that medical practitioners or health authorities will adopt such products. Publicity arising from any adverse outcome or other problem occurring in the treatment of a patient using any of the Group's products for any reason could materially adversely affect demand for any such products.

5. Manufacturing

In order to commercialise the Group's proposed products, such products will need to be manufactured to high standards in commercial quantities in compliance with all regulatory and other requirements and at an acceptable cost. There can be no assurance that the Group's facilities or those of any development partner will be adequate to satisfy relevant requirements or to meet demand or that the cost of manufacture will be at an acceptable level.

6. Collaborative Arrangements

Co-development and other collaborative relationships are generally complex and may give rise to disputes regarding the relative rights, obligations and revenues of the parties, including the ownership of intellectual property and associated rights and obligations, especially when the applicable provisions have not been fully negotiated. Such disputes can delay collaborative research, development or commercialisation of potential products, or can lead to lengthy, expensive litigation or arbitration. The terms of collaborative arrangements may also limit or preclude the Company from developing products or technologies developed pursuant to such collaborations. Moreover, collaborative arrangements often take considerably longer to conclude than the parties initially anticipate, which could cause the Company to agree to less favourable agreement terms that delay or defer recovery of development costs and reduce the funding available to support key programmes.

The Company may not be able to enter into future collaborative arrangements on acceptable terms, which would harm its ability to commercialise its products. Further, even if the Company were to enter into collaboration arrangements, it is possible that its collaborative partners may choose not to develop and commercialise products using the Company's technologies. Other factors relating to collaborations that may adversely affect the commercial success of the Company's products include:

- any parallel development by a collaborative partner of competitive technologies or products;
- arrangements with collaborative partners that limit or preclude the Company from developing products or technologies;
- premature termination of a collaboration agreement; or
- failure by a collaborative partner to devote sufficient resources to the development and commercial sales of the Company's products.

Co-development and collaborative arrangements may not restrict the Company's partners from competing with the Company or restrict their ability to market or sell competitive products. The Company's current and any future collaborative partners may pursue existing or other development-stage products or alternative technologies in preference to those being developed in collaboration with the Company. Collaborative partners may also terminate their collaborative relationships with the Company or otherwise decide not to proceed with development and commercialisation of the Company's products.

7. Approvals by Third Parties

Under the terms of certain of the licence agreements and grants received by the Company from third parties, the Company is required to obtain approval from such third parties in order to grant sub-licences to collaborative partners to develop or commercialise its products. The requirement of obtaining these approvals, and any conditions that such third parties may impose upon such approvals, could have the effect of delaying or impeding the Company's ability to enter into agreements with collaborative partners or result in the Company having to accept terms and conditions that might be less favourable to the Company.

8. Competition and Competing Products

XTLbio's competitors, and potential competitors, include major biotechnology pharmaceutical companies with substantially greater resources than those of the Company. There can be no assurance that competitors and potential competitors will not succeed in developing products and technologies that are more effective or economic than those being developed by XTLbio or which would render XTLbio's products and/or technology obsolete or otherwise uncompetitive.

9. Requirement for Additional Funds

The Company's future capital requirements to continue the development of its therapeutic programmes and to complete the clinical trials and commercialisation of its products and technologies will be substantial and may require additional funding. There can be no guarantee that the necessary funds will be available on a timely basis, on favourable terms, or at all, or that such funds if raised, would be sufficient. If additional funds should be raised by issuing equity securities, dilution to the then existing shareholdings may result. The level and timing of future expenditure will depend on a number of factors, many of which are outside the Company's control.

10. Intellectual Property and Patent Protection

The Company's success will depend, *inter alia*, on its ability to establish, protect and enforce proprietary rights relating to the commercialisation, manufacture, use and sale of its existing and proposed products. Whilst the Directors are confident of the strength and range of the Company's patent position, there can be no assurance that any intended patent applications will mature into granted patents or that existing patents, or patents which may be obtained in the future, will adequately protect the Company's products and technology or enable it to commercialise its development products. Since patent applications are generally maintained in secrecy for at least 18 months (and in the US often much longer) and since publication of discoveries in scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that it was the first to make the inventions covered by each of its pending patent applications or that it was the first to file applications for such inventions. The Company cannot therefore be certain that granted patents will be enforceable. Furthermore, the Company cannot be certain that patents under which it has licences will be valid.

There can be no assurance that the Company's patents or patent applications or those licensed to the Company will not become involved in opposition or revocation proceedings instituted by third parties. If such proceedings were initiated against one or more of the Company's patents, or those licensed to the Company, the defence of such rights could involve substantial costs and the outcome could not be predicted.

Competitors or potential competitors may have filed applications for, may have been granted patents for, or may obtain additional patents and proprietary rights that may relate to compounds or processes competitive with those of the Company. If patents are granted to other parties that contain claims having a scope that is interpreted to cover any of the Company's products (including the manufacture thereof), there can be no assurance that the Company will be able to obtain licences to such patents at reasonable cost, if at all, or be able to develop or obtain alternative technology.

The Company intends to apply for patent protection for each new monoclonal antibody produced. Such patents may include claims relating to novel human monoclonal antibodies directed at targets for which other human monoclonal antibodies already exist, or at targets which are protected by patents or patent applications filed by third parties. No assurance can be given that any such patent application will not have priority over patent applications filed by the Company.

Several groups are attempting to produce and patent a chimeric mouse with human tissue. To the extent any patents issued to other parties claiming, in general, mouse-human chimeras, the risk increases that the potential products and processes of the Company or its future strategic partners may give rise to claims of patent infringement.

The Company plans to use the recombinant production of antibodies in CHO cells in the development and production of its HepeX^{TM}-B and HepeX^{TM}-C products. However, patents relating to this method of antibody production are owned by third parties. XTLbio is aware that third parties have patent protection covering HCV antigens and antibodies and as a result it is likely that the Company would be required to enter licensing arrangements with these third parties in order to commercialise its HepeX products. If the Company is unable to achieve commercially acceptable terms, its ability to develop, manufacture and sell these products could be impaired. Further, royalties payable to third parties may reduce the payments the Company will receive from its licencees or development partners, including Cubist.

11. Product Liability and Insurance

XTLbio's business exposes it to potential product liability and professional indemnity risks which are inherent in the development, preclinical study, clinical trials, manufacturing and marketing of new therapeutic products. In addition, it may be necessary for the Company to secure certain levels of insurance as a condition to the conduct of clinical trials. There can be no assurance that future necessary insurance cover will be available to the Company at an acceptable cost, if at all, or that, in the event of any claim, the level of insurance carried by the Company now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business.

12. Continuing Losses

The Company's business has incurred net losses in each year since it was established. These losses have arisen mainly from the costs incurred in research and development of its products and general administrative costs. The Company expects to incur substantial losses, and substantial net cash outflows, for several more years largely because of the time lag between the development of its products and the generation of revenues once they have been launched.

13. Attraction and Retention of Key Employees

Whilst the Company has entered into employment arrangements with each of its key personnel with the aim of securing their services, the retention of their services cannot be guaranteed. In addition, recruiting and retaining management and scientific personnel as the Company develops will be critical to the Company's success.

14. Share Price Volatility

The share prices of publicly traded biotechnology and emerging pharmaceutical companies can be highly volatile. The price at which the Ordinary Shares will be quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to XTLbio and its operations and some which may affect the quoted healthcare and pharmaceutical sector, or quoted companies generally. These factors could include the performance of the Company's research and development programmes, large purchases or sales of Ordinary Shares, currency fluctuations, legislative changes in the healthcare environment and general economic conditions.

15. City Code

XTLbio is incorporated in Israel and its head office and place of central management is in Israel. Accordingly, transactions in shares of the Company are unlikely to be subject to the provisions of the UK City Code on Takeovers and Mergers (the "City Code"). There are no provisions of Israeli law or regulation applicable to the Company that are similar or analogous to the provisions of the City Code.

16. Foreign Currency

The Company's income and expenditure is, in part, denominated in foreign currencies. Fluctuations in exchange rates may, therefore, adversely affect the Company's results. Whilst a substantial amount of the Company's operating expenses are in US dollars, a significant portion of its expenses are in NIS. The Company also pays for some of its equipment in the local currencies of its suppliers. The Company's results could be harmed if the Company is unable to guard against currency fluctuations in Israel or other countries in which components are obtained in the future. Accordingly, the Company may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect the Company from the adverse effects of inflation in Israel.

17. Risks related to the Company's Operations in Israel

Potential political, economic and military instability in Israel may harm the Company's results or operations.

The Company's principal offices and several of its suppliers are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect the Company's operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbours. A state of hostility, varying in degree and intensity, has led

to security and economic problems for Israel. The future of peace efforts between Israel and its Arab neighbours remains uncertain. Any future armed conflicts or political instability in the region could negatively affect business conditions and harm the Company's operations. Furthermore, several countries still restrict business with Israel and Israeli companies. These restrictive laws and policies may adversely affect the Company.

The Company's operations may be adversely affected by the obligation of the Company's personnel to perform military service.

Some of the Company's executive officers and employees in Israel are obliged to perform annual military reserve duty. In addition, in the event of a military conflict or war, these persons could be required to serve in the military for extended periods of time. The Company's operations could be disrupted by the absence for a significant period of one or more of the Company's executive officers or key employees due to military service. Any disruption to the Company's personnel may adversely affect the Company.

18. Passive Foreign Investment Company

Special tax rules apply to the timing and character of income received by a US holder of a Passive Foreign Investment Company (''PFIC''). A determination as to a corporation's status as a PFIC is made annually. However, such a determination is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year. The Company will be a PFIC if either 75% or more of its gross income in a tax year is passive income or the average percentage of its assets (by either value or adjusted basis, depending on the circumstances) that produce or are held for the production of passive income is at least 50%. The Internal Revenue Services (''IRS'') has indicated that cash balances, even if held as working capital, are considered to be assets that produce passive income. Therefore, any determination of PFIC status will depend upon the sources of the Company's income, and the relative values of passive and non-passive assets, including goodwill. Furthermore, because the goodwill of a publicly-traded corporation such as the company is largely a function of the trading price of its shares, the valuation of that goodwill is subject to significant change throughout each year. Accordingly, it is possible that the Company may become a PFIC due to changes in the nature of its income or its assets, or as the result of a decrease in the trading price of its shares. An initial determination that the Company is a PFIC will generally apply for subsequent years (whether or not the Company meets the requirements for PFIC status in those years) with respect to a U.S. holder who does not make the qualified election discussed below, for the first year the U.S. holder holds or is deemed to hold the Company's stock and for which the Company is determined to be a PFIC.

If the Company were to be classified as a PFIC, unless a US holder made the qualified election described in the next paragraph, a special tax regime would apply to both (a) any ''excess distribution'' by the Company (generally, the US holder's ratable share of distributions in any year that are greater than 125% of the average annual distributions received by such U.S. holder in the three preceding years or its holding period, if shorter) and (b) any gain realized on the sale or other disposition of your ordinary shares. Under this regime, any excess distribution and realized gain would be treated as ordinary income and would be subject to tax as if (a) the excess distribution or gain had been realized ratably over the US holder's holding period, (b) the amount deemed realized had been subject to tax in each year of that holding period at the highest applicable tax rate, and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years.

A U.S. holder could elect, provided the Company complies with certain reporting requirements, to have the Company treated, with respect to that US holder's shares, as a ''qualified electing fund.'' In such case, an electing US holder would include annually in gross income (for each year that the Company actually is a PFIC) his *pro rata* share of the Company's annual ordinary earnings and annual net capital gains, whether or not such amounts are actually distributed to the US holder. These amounts would be included by a US holder for its taxable year in which or with which the Company's taxable year ends. If the election were made, amounts that are included in income generally could be distributed tax free, and, to the extent not distributed, would increase the US holder's tax basis in the ordinary shares. Under certain circumstances, a US holder also may obtain treatment similar to that afforded a qualified electing fund by making an election in a year subsequent to the first year that a corporation qualifies as a PFIC to treat such holder's interest in the corporation as subject to a deemed sale in such subsequent year, recognizing gain (but not loss) on such deemed sale in accordance with the general PFIC rules (including the interest charge

provisions) described above and thereafter treating such interest in the corporation as an interest in a qualified electing fund.

The qualified election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the IRS. Investors should consult their own tax advisors concerning the merits of making a qualified election. In addition, certain classes of investors, such as regulated investment companies and tax-exempt entities, may be subject to special rules and should consult their own tax advisers concerning the application of US federal income tax rules governing PFICs in their particular circumstances.

A US holder who makes a qualified election may recognize ordinary income or loss as a result of currently fluctuations between the dates of deemed and actual distributions from the Company.

As an alternative to or in addition to the qualified election, a so-called ‘‘mark-to-market’’ election may be made by a US holder with respect to ordinary shares owned at the close of such holder’s taxable year, provided that the Company is a PFIC and the ordinary shares are considered ‘‘marketable stock.’’ The ordinary shares will be marketable stock if they are listed on a national securities exchange that is registered with the Securities and Exchange Commission,or the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or an equivalent regulated and supervised foreign securities exchange. If a US holder were to make a mark-to-market election with respect to ordinary shares, such holder generally would include as ordinary income (or, to the extent of prior unreversed inclusions, be allowed an ordinary loss deduction, as the case may be) an amount equal to the difference between the fair market value of the holder’s Ordinary Shares as of the close of the holder’s taxable year and its adjusted basis. Gains from an actual sale or other disposition of the Ordinary Shares will be treated as ordinary income, and any losses incurred on an actual sale or other disposition of the Ordinary Shares will be treated as ordinary loss to the extent of any prior unreversed inclusions. The mark-to-market election is made on a shareholder-by-shareholder basis and is effective for the taxable year for which made and all subsequent years until either (a) the Ordinary Shares cease to be marketable stock or (b) the election is revoked with the consent of the IRS.

PART V

FINANCIAL INFORMATION ON THE GROUP

Basis of financial information

The financial information for the three years ended 31 December 2003 set out below has been extracted, without material adjustment, from the audited consolidated financial statements of XTL Biopharmaceuticals Ltd. for each of the three years ended 31 December 2003 prepared in accordance with US GAAP. Such financial information does not constitute statutory accounts of XTL Biopharmaceuticals Ltd. Copies of the statutory accounts for each of the three years ended 31 December 2003 have been delivered to the Israeli Registrar of Companies.

Kesselman & Kesselman, Certified Public Accountants (Israel) of Trade Tower, 25 Hamered Street, Tel Aviv 68125, Israel have issued unqualified reports in accordance with auditing standards generally accepted in Israel and in the United States with respect to the statutory consolidated accounts for each of the three years ended 31 December 2003.

The audit report with respect to the consolidated financial statements of the Company for the year ended 31 December 2003 contained the following emphasis of matter:

''As discussed in note 1a to the financial statements, continuation of the Company's current operations after utilizing its current cash reserves during 2005, is dependent upon the generation of additional financial resources, either through agreements for the commercialization of its product portfolio or through external financing.''

CONSOLIDATED BALANCE SHEETS

(IN US DOLLARS)

	31 December		
	2003	*2002*	*2001*
		In thousands	
Assets			
CURRENT ASSETS:			
Cash and cash equivalents (note 1f)	4,184	2,016	17,899
Short-term deposits (note 8a)	17,329	32,053	33,111
Marketable securities (note 8b)	749	1,637	1,178
Accounts receivable – other (note 8c)	706	266	872
Total current assets	22,968	35,972	53,060
SEVERENCE PAY FUNDS (note 4)	673	542	317
LONG-TERM DEPOSIT (note 6b(1))	159	139	141
PROPERTY AND EQUIPMENT (note 3):			
Cost	3,143	3,477	2,854
Less – accumulated depreciation and amortization	2,090	1,707	1,266
	1,053	1,770	1,588
	24,853	38,423	55,106
Liabilities and shareholders' equity			
CURRENT LIABILITIES –			
accounts payable and accruals (note 8d)	3,001	2,576	2,627
LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (note 4)	1,244	1,017	526
COMMITMENTS (note 6)			
Total liabilities	4,245	3,593	3,153
SHAREHOLDERS' EQUITY (note 5):			
Ordinary Shares of NIS 0.02 par value: authorized: 300,000,000 as of 31 December 2003 and 2002; issued and outstanding: 112,019,464 as of 31 December 2003 and 111,165,364 as of 31 December 2002	594	590	590
Additional paid in capital	88,966	88,966	88,946
Other capital surplus	337	337	337
Accumulated other comprehensive income (loss)	14	(48)	(45)
Deficit accumulated during the development stage	(69,303)	(55,015)	(37,875)
Total shareholders' equity	20,608	34,830	51,953
	24,853	38,423	55,106

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN US DOLLARS)

	Year ended 31 December			Period from 9 March 1993* to 31 December
	2003	*2002*	*2001*	*2003*
	In thousands (except for share and per share data)			
RESEARCH AND DEVELOPMENT COSTS (note 8e)	13,793	13,302	12,206	63,984
LESS – PARTICIPATIONS (note 6a(3))	3,229	75	1,133	10,950
	10,564	13,227	11,073	53,034
GENERAL AND ADMINISTRATIVE EXPENSES (note 8f)	3,058	3,594	2,982	18,787
BUSINESS DEVELOPMENT COSTS (note 8g)	664	916	1,067	3,476
IMPAIRMENT OF ASSET HELD FOR SALE (note 3c)	354			354
OPERATING LOSS	14,640	17,737	15,122	75,651
FINANCIAL INCOME – net (note 8h)	352	597	2,448	6,348
LOSS FOR THE PERIOD	14,288	17,140	12,674	69,303
BASIC AND DILUTED PER SHARE DATA:				
Loss per ordinary share	$ 0.13	$ 0.15	$ 0.11	
Weighted average number of ordinary shares used to compute loss per ordinary share	111,712,916	111,149,292	110,941,014	

* Incorporation date, see note 1a.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN US DOLLARS)

	Preferred shares		*Ordinary shares*		*Additional paid-in capital*	*Other capital surplus*	*Accumulated other comprehensive income (loss)*	*Deficit accumulated during the development stage*	*Total*
	Number of shares	*Amount*	*Number of shares*	*Amount*					
		In thousands		*In thousands*			*In thousands*		
CHANGES DURING THE PERIOD FROM 9 MARCH 1993 (DATE OF INCORPORATION) TO 31 DECEMBER 2000:									
Comprehensive loss:									
Loss								(25,201)	(25,201)
Net unrealised gain							15		15
Comprehensive loss									(25,186)
Exercise of share warrants			1,499,980	7	422	(82)			347
Exercise of employee stock options	15,600	*	162,500	1	64	(64)			1
Issuance of share capital, net of share issue expenses	43,571,850	250			26,187				26,437
Bonus shares	7,156,660	41	19,519,720	97	(138)				
Conversion of preferred shares into ordinary shares	(50,744,110)	(291)	50,744,110	291					
Receipts in respect of share warrants (Expired in 1999)					89				89
Conversion of debentures			15,183,590	75	16,627				16,702
Initial public offering ("IPO") of the Company's shares under a prospectus dated 20 September 2000 (net of $5,199,000 – issuance expenses)			23,750,000	118	45,595				45,713
Amortization of deferred compensation expenses						483			483
BALANCE AT 31 DECEMBER 2000	—	—	110,859,900	589	88,846	337	15	(25,201)	64,586
CHANGES DURING 2001:									
Comprehensive loss:									
Loss								(12,674)	(12,674)
Net unrealised loss							(60)		(60)
Comprehensive loss									(12,734)
Deferred compensation related to employee stock option plans					*	*			
Exercise of share warrants			208,000	1	74				75
Exercise of employee stock options			59,138	*	26				26
BALANCE AT 31 DECEMBER 2001 – brought Forward	—	—	111,127,038	590	88,946	337	(45)	(37,875)	51,953

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN US DOLLARS)

	Ordinary shares						
	Number of shares	*Amount*	*Additional paid-in capital*	*Other capital surplus*	*Accumulated other comprehensive income (loss)*	*Deficit accumulated during the development stage*	*Total*
				In thousands			
BALANCE AT 31 DECEMBER 2001 – brought forward	111,127,038	590	88,946	337	(45)	(37,875)	51,953
CHANGES DURING 2002:							
Comprehensive loss:							
Loss						(17,140)	(17,140)
Net unrealised loss					(3)		(3)
Comprehensive loss							(17,143)
Exercise of employee stock options	38,326	*	20				20
BALANCE AT 31 DECEMBER 2002	111,165,364	590	88,966	337	(48)	(55,015)	34,830
CHANGES DURING 2003:							
Comprehensive loss:							
Loss						(14,288)	(14,288)
Net unrealised gain					62		62
Comprehensive loss							(14,226)
Exercise of employee stock options	854,100	4					4
BALANCE AT 31 DECEMBER 2003	112,019,464	594	88,966	337	14	(69,303)	20,608

* Represents an amount less than $1,000.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN US DOLLARS)

	Year ended 31 December			Period from 9 March 1993 (b) to 31 December
	2003	*2002*	*2001*	*2003*
	In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Loss for the period	(14,288)	(17,140)	(12,674)	(69,303)
Adjustments to reconcile loss to net cash used in operating activities:				
Depreciation and amortization	440	470	374	2,268
Capital loss (gain) on property and equipment	2	(1)	6	11
Liability for employee rights upon retirement	187	323	152	1,320
Impairment of asset held for sale	354			354
Loss (gain) from marketable securities	(27)	41	(5)	(423)
Stock based compensation expenses				483
Changes in operating asset and liability items:				
Decrease (increase) in accounts receivable	(440)	606	499	(659)
Increase (decrease) in accounts payable and accruals	499	(20)	(61)	2,954
Net cash used in operating activities (a)	(13,273)	(15,721)	(11,709)	(62,995)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Short-term deposits, net	14,724	1,058	18,233	(17,329)
Long-term deposits	(20)	2	9,967	(159)
Investment in available for sale securities	(71)	(1,219)	(995)	(3,363)
Proceeds from sales of available for sale securities	1,048	716	953	3,051
Severance pay funded	(165)	(88)	(93)	(749)
Purchase of property and equipment	(81)	(659)	(927)	(3,803)
Proceeds from sale of property and equipment	2	8	43	117
Net cash provided by (used in) investing activities – brought forward	15,437	(182)	27,181	(22,235)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN US DOLLARS)

	Year ended 31 December			Period from 9 March 1993 (b) to 31 December
	2003	*2002*	*2001*	*2003*
	In thousands			
Net cash provided by (used in) investing activities – brought forward	15,437	(182)	27,181	(22,235)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of share capital – net of share issue expenses				88,941
Exercise of share warrants and employee stock options	4	20	101	473
Proceeds from long-term debt				399
Proceeds from short-term debt				50
Repayment of long-term debt				(399)
Repayment of short-term debt				(50)
Net cash provided by financing activities	4	20	101	89,414
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,168	(15,883)	15,573	4,184
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,016	17,899	2,326	—
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,184	2,016	17,899	4,184
Supplementary information on financing activity not involving cash flows – conversion of convertible subordinated debenture into shares				1,700
Supplemental disclosures:				
Income taxes paid (mainly – tax advance in respect of excess expenses)	161	79	33	218
Interest paid				350
(a) **Including effect of changes in the exchange rate on cash**	(9)	(709)	(648)	(1,820)

(b) Incorporation date, see note 1a.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial information has been prepared in accordance with generally accepted accounting principles (GAAP) in the United States.

The significant accounting policies, applied on a consistent basis, are as follows:

a. General:

1) XTL Biopharmaceuticals Ltd. (''the Company'') was incorporated under the Israel Companies Ordinance on 9 March 1993. The Company is a development stage company in accordance with Financial Accounting Standard 7 (''FAS'') ''Accounting and Reporting by Development Stage Enterprises''.

   The principal activity of the Company is the development of a therapeutic pipeline for the treatment of infectious diseases.

   The Company has a wholly owned subsidiary in the United States – XTL Biopharmaceuticals Inc. (''Subsidiary''), which was incorporated in 1999 under the law of the state of Delaware. The subsidiary is primarily engaged in business development and clinical activities.

2) Through 31 December 2003, the Company has incurred losses in an aggregate amount of US$69,303,000. Such losses have resulted from the Company's activities as a development stage company. The Company will be able to finance its operations from its current reserves for the coming year. Continuation of the Company's current operations after utilizing its current cash reserves during 2005, is dependent upon the generation of additional financial resources either through agreements for the commercialisation of its product portfolio or through external financing.

b. Functional currency

The currency of the primary economic environment in which the operations of the Company are conducted is the US dollar (''$'' or ''dollar'').

Most of the Company's research and development expenses are incurred in dollars. Significant part of the Company's capital expenditures and most of its financing is in dollars.

Thus, the functional currency of the Company is the US dollar.

Transactions and balances originally denominated in dollars are presented at their original amounts. Balances in non-dollar currencies are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items reflected in the statements of operations, the following exchange rates are used: (i) for transactions – exchange rates at transaction dates or average rates and (ii) for other items (derived from non-monetary balance sheet items) – historical exchange rates. The resulting currency transaction gains or losses are carried to financial income or expenses, as appropriate.

c. Use of estimates in the preparation of financial information

The preparation of the financial information, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, at the date of the financial information, and the reported expenses during the reporting periods. Actual results may vary from these estimates.

d. Principles of consolidation

The consolidated financial information includes the accounts of the Company and its wholly owned subsidiary. All intercompany transactions and balances were eliminated in consolidation.

e. Impairment of long-lived assets

The Company adopted, in 2002, FAS 144 ''Accounting for the Impairment or Disposal of Long-Lived Assets'' (''FAS 144''). FAS 144 requires that long-lived assets, to be held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets held and used is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets are written down to their estimated fair values. Assets ''held for sale'' are reported at the lower of their carrying amount or fair value less estimated costs to sell (see also note 3c).

f. Cash equivalents

Highly liquid investments, which include short-term bank deposits (up to three month from date of deposits), that are not restricted as to withdrawal or use, are considered by the Company and its subsidiary to be cash equivalents.

g. Marketable securities

Pursuant to FAS No. 115, ''Accounting for Certain Investments in Debt and Equity Securities'', the Company's investment in debt securities (mainly debentures) have been designated as available-for-sale. Available-for-sale securities are carried at fair value, which is determined based upon the quoted market prices of the securities, with unrealised gains and losses reported in accumulated other comprehensive income, a component of shareholders' equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest income. The Company views its available-for-sale portfolio as available for use in its current operations. Interest and dividends on securities classified as available-for-sale are included in interest income.

h. Property and equipment

These assets are carried at cost less depreciation and impairment charges. Depreciation is completed using the straight-line method over the estimated useful life of the assets.

Annual rates of depreciation are as follows:

	%
Laboratory equipment	10-20 (mainly 15)
Computers	33
Furniture and office equipment	6-15
Motor Vehicles	15

Leasehold improvements are amortized by the straight-line method over the term of the lease, which is shorter than the estimated useful life of the improvements.

i. Deferred income taxes

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has provided a full valuation allowance with respect to its deferred tax assets.

Paragraph 9(f) of FAS 109, ''Accounting for Income Taxes'', prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

j. Research and development costs and participations

Research and development costs are expensed as incurred.

Participation from government for development of approved projects (and from others) is recognized as a reduction of expense as the related costs are incurred (see also note 6).

k. Business development costs

Costs associated with business development are comprised of costs related to partnering activities for the Company's programs and seeking for new research and development collaborations. The Business and development expenses are expensed as incurred.

l. Loss per share (''EPS'')

Basic and diluted losses per share are presented in accordance with FAS No. 128. ''Earnings per share'' (''FAS 128''), for all periods presented. Outstanding share options, and warrants have been excluded from the calculation of the diluted loss per share because all such securities are antidilutive for all periods presented. The total number of common shares related to outstanding options and warrants excluded from the calculations of diluted net loss per share were 17,721,724, 19,789,011 and 18,845,310 for the years ended 31 December 2003, 2002 and 2001, respectively.

m. Comprehensive loss

Comprehensive loss, presented in shareholders' equity consists of net loss for the period and net unrealised gains or losses on available for sale marketable securities.

n. Stock based compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method in accordance with provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (''APB 25''), and Financial Accounting Standards Board Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans (''FIN 28''), and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (''FAS 123'') as amended by FAS No. 148. Under APB 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's common stock and the exercise price. FAS 123 defines a ''fair value'' based method of accounting for an employee stock option. The *pro forma* disclosures of the difference between the compensation expense included in net loss and the related cost measured by the fair value method are presented below. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of FAS 123 and Financial Accounting Standards Board Emerging Issues Task Force Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services (''EITF 96-18'').

An alternative method to the intrinsic value method of accounting for stock-based compensation is the fair value approach prescribed by FAS 123, as amended by FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. If the Company followed the fair value approach, the Company would be required to record deferred compensation based on the fair value of the stock option at the date of grant. The fair value of the stock option is required to be computed using an option-pricing model, such as the Black-Scholes option valuation model, at the date of the stock option grant. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option.

The following table illustrates the effect on loss and loss per share assuming the Company had applied the fair value recognition provisions of FAS 123 to its stock-based employee compensation:

	Year ended 31 December			Period from 9 March 1993* to 31 December
	2003	2002	2001	2003
		$ in thousands		
Loss for the period, as reported	14,288	17,140	12,674	69,303
Deduct: stock based employee compensation expense, included in reported loss				(483)
Add: stock based employee compensation expense determined under fair value method for all awards	821	1,297	1,630	6,116
Loss – pro-forma	15,109	18,437	14,304	74,936
Basic and diluted loss per share:				
As reported	0.13	0.15	0.11	
Pro-forma	0.14	0.17	0.13	

* Incorporation date, see note 1a.

o. Recently issued accounting pronouncements in the United States:

(1) Fin 46 – Consolidation of Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation No. 46, ''Consolidation of Variable Interest Entities'' (FIN 46). Under FIN 46, entities are separated into two populations: (1) those for which voting interests are used to determine consolidation (this is the most common situation) and (2) those for which variable interests are used to determine consolidation. FIN 46 explains how to identify Variable Interest Entities (VIEs) and how to determine when a business enterprise should include the assets, liabilities, non-controlling interests, and results of activities of a VIE in its consolidated financial statements.

Since issuing FIN 46, the FASB has proposed various amendments to the Interpretation and has deferred its effective dates. Most recently, in December 2003, the FASB issued a revised version of FIN 46 (FIN 46-R), which also provides for a partial deferral of FIN 46. This partial deferral established the effective dates for public entities to apply FIN 46 and FIN 46-R based on the nature of the variable interest entity and the date upon which the public company became involved with the variable interest entity. In general, the deferral provides that (i) for variable interest entities created before 1 February 2003, a public entity must apply FIN 46-R at the end of the first interim or annual period ending after 15 March 2004, and may be required to apply FIN 46 at the end of the first interim or annual period ending after 15 December 2003, if the variable interest entity is a special purpose entity, and (ii) for variable interest entities created after 31 January 2003, a public company must apply FIN 46 at the end of the first interim or annual period ending after 15 December 2003, as previously required, and then apply FIN 46-R at the end of the first interim or annual reporting period ending after 15 March 2004.

The Company has currently no variable interests in any VIE. Accordingly, the Company believes that the adoption of FIN 46 and FIN 46-R will not have material impact on its financial position, results of operations and cash flows.

(2) FAS 132

In December 2003, the FASB issued FAS No. 132 (revised 2003), ''Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132 (''FAS 132 (revised 2003)''). This Statement revises employers' disclosures about pension plans and

other postretirement benefit plans. It does not change the measurement or recognition of those plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans.

Part of the new disclosures provisions are effective for 2003 calendar year-end financial statements, and accordingly have been applied by the Company in this consolidated financial information. The rest of the provisions of this Statement, which have a later effective date, are currently being evaluated by the Company.

p. Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

NOTE 2 – INVESTMENT IN ASSOCIATED COMPANY

During March 2001, the Company acquired 20% of the shares of US based iviGene Corporation (hereafter – iviGene) for $1 million and agreed to fund certain research activities at iviGene. The acquisition of shares and the ongoing funding were charged to Research and Development costs in the statement of operations. During 2002, the Company terminated funding research activities at iviGene. The Company had an option to acquire the remaining shares of iviGene for $4 million in cash and $ 16 million in the Company's shares. This option expired in 2002.

The Company will not have the title for benefits from future developments beyond its holding rights.

NOTE 3 – PROPERTY AND EQUIPMENT:

a. Composition of the assets, grouped by major classifications, is as follows:

	31 December		
	2003	*2002*	*2001*
		$ in thousands	
Cost:			
Laboratory equipment	1,727	2,089	1,552
Computers	497	494	407
Leasehold improvements	698	698	698
Furniture and office equipment	221	196	171
Motor Vehicles	—	—	26
	3,143	3,477	2,854
Accumulated depreciation and amortization:			
Laboratory equipment	932	762	560
Computers	438	351	254
Leasehold improvements	639	536	382
Furniture and office equipment	81	58	52
Motor Vehicles	—	—	18
	2,090	1,707	1,266
	1,053	1,770	1,588

b. Depreciation and amortization totalled $440,000, $470,000 and $374,000 in the years ended 31 December 2003, 2002 and 2001, respectively.

c. Asset held for sale

During 2003, the Company's management determined to put on hold early stage research activities, and consequently, to sell an asset used in one of these activities. Under the provisions of FAS 144, the Company's management reviewed the carrying value of this asset (original cost $415,000, depreciated amount – $354,000) and determined to write it off. An impairment charge in an amount of $354,000 was recorded.

NOTE 4 – EMPLOYEE RIGHTS UPON RETIREMENT:

a. The Company

Israeli law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The following principal plans relate to the Company:

1) On 30 June 2001 the Company entered into an agreement with each employee implementing Section 14 of the Severance Compensation Act, 1963 (the "Law") and the General Approval of the Labour Minister issued in accordance to the said Section 14, mandating that upon termination of such employee's employment, the Company shall release to the employee all the amounts accrued in its Insurance Policies. Accordingly, the Company remits each month to each of its employee's Insurance Policy, the amounts required by law to cover the severance pay liability.

   The severance pay liabilities covered by these plans are not reflected in the financial information as the severance pay risks have been irrevocably transferred to the severance funds.

2) Insurance policies for certain employees (senior managers); the policies provide most of coverage for severance pay and pension liabilities of managerial personnel, the remainder liabilities are covered by the Company.

b. The subsidiary

The subsidiary's severance pay liability is calculated based on the agreements between the subsidiary and its employees.

c. Severance pay expenses

Severance pay expenses, net, totalled $187,000, $325,000 and $311,000 for the years ended 31 December 2003, 2002 and 2001, respectively.

d. The Company expects to contribute, in 2004, $285,000 to the insurance companies in respect to its severance pay obligations to Israeli employees.

NOTE 5 – SHAREHOLDERS' EQUITY:

a. Share Capital

Composed as follows:

	31 December 2003		*31 December 2002*		*31 December 2001*	
	Authorized	*Issued and paid*	*Authorized*	*Issued and paid*	*Authorized*	*Issued and paid*
Ordinary shares NIS 0.02 par value	300,000,000	112,019,464	300,000,000	111,165,364	300,000,000	111,127,038

The shares are traded on the London Stock Exchange. The quoted price per share, as of 31 December 2003 is 16.75 p (US $0.3).

On 10 August 2000, the Company issued 1,518,359 convertible preferred debentures at a price of $11 per convertible debenture. On 26 September 2000, the convertible preferred debentures were converted into 15,183,590 ordinary shares of NIS 0.02.

Prior to the Company's Initial Public Offering of its Ordinary Shares on the London Stock Exchange ("IPO"), see also below, all classes of shares were respectively reclassified as 30,000,000 Ordinary Shares of nominal value of NIS 0.2 each, of which 7,106,381 Ordinary Shares of NIS 0.2 each were issued and outstanding.

On 10 August 2000, the Company split the share capital so that each Ordinary Share of NIS 0.20 shall be divided into 10 Ordinary Shares of NIS 0.02 each, so that following the split, the authorized share capital consists of 300,000,000 Ordinary Shares of NIS 0.02 each, of which 71,063,810 Ordinary Shares of NIS 0.02 each were issued and outstanding.

On 20 September 2000 the Company completed an IPO, as a result of which 20,900,000 Ordinary Shares of NIS 0.02 each have been issued. The proceeds of the issuance of shares in the amount of £31.3 million (before deduction of share issue expenses) were received as US $44.7 million. The underwriters of the IPO were granted an over-allotment option.

Accordingly, on 26 October 2000, the Company issued 2,850,000 Ordinary Shares of NIS 0.01 for a consideration of US $6.2 million (before deduction of share issue expenses) at the price of £1.5 per share (the IPO price) to meet over-allotments in connection with the placing.

b. Summary of the Company's stock options:

In May 2001, the Company's board of directors approved a stock option plan for employees of the Company and it's subsidiary (hereafter – the 2001 plan), according to which up to 11,000,000 options are available to be granted. Under this plan, each option is exercisable to purchase one ordinary share of NIS 0.02 par value of the Company. The lock up period of the options is two years from the date of grant. As of 31 December 2003, the remaining number of options in this pool is 7,839,566.

Other than the option pool for the 2001 plan, there are no option pools for the previous plans.

3) The following table summarizes information about stock options granted from the date of incorporation to 31 December 2003:

Grant number	*The Grantees*	*Grant date*	*Number of options*	*Exercise price per option*	*Vesting period*
1	Employees of the Company	May 95	900,900	NIS 0.02	4 years period on a yearly basis
2	Employees of the Company	February 97	3,955,090	$0.365	4 years period on a yearly basis
3	Employees of the Company	August 98	423,680	$0.497	4 years period on a yearly basis, starting 3 December 1997
4	Senior officers of the Company	October 98	5,038,360	$0.497	4 years period on a monthly basis
5	Employees of the Company and its subsidiary	June 99	1,672,500	$0.497	4 years period on a yearly basis
6	Senior officers of the Company	August 99	678,720	$0.497	4 years period on a monthly basis
7	Employees of the Company and its subsidiary	April 00	1,870,000	$1.1	4 years period on a monthly or yearly basis
8	Employees of the Company and its subsidiary	May 01	1,942,900	$0.931	3 years period on a yearly basis starting May 2003
9	Employees of the Company and its subsidiary	September 01	306,400	$0.766	3 years period on a yearly basis starting September 2003
10	Employees of the Company and its subsidiary	March 02	425,800	$0.851	3 years period on a yearly basis starting March 2004
11	Employees of the Company and its subsidiary	September 02	877,400	$0.482	3 years period on a yearly basis starting September 2004
12	Employees of the Company and its subsidiary	February 03	699,900	$0.1055	3 years period on a yearly basis starting February 2005
13	Employees of the Company and its subsidiary	September 03	125,000	$0.25	3 years period on a yearly basis starting September 2005

In addition, on May 2001, the Company granted 2,120,000 options to senior officers and directors without consideration, with exercise price of $0.931 (par value) each.

These senior officers and directors were entitled to exercise the options based on achievement of certain performance conditions. According to the performance criterias, only one third of the conditions were achieved and therefore, two thirds were expired.

The Company applies ''variable-plan'' accounting treatment in respect of this grant.

General conditions:

(1) All options were granted without consideration.

(2) The options are exercisable over a period of 10 years, from the grant date.

2) Stock Options granted are as follows:

	Year ended 31 December					
	2003		*2002*		*2001*	
	Number	*Weighted average Exercise price $*	*Number*	*Weighted average exercise price $*	*Number*	*Weighted average exercise price $*
Balance outstanding at beginning of year	17,816,823	0.61	17,279,890	0.62	13,050,890	0.51
Changes during the year:						
Granted	824,900	0.13	1,303,200	0.61	4,369,300	0.92
Exercised	(854,100)	0.01	(38,326)	0.50	(59,138)	0.49
Expired and forfeited	(2,234,962)	0.83	(727,941)	0.83	(81,162)	0.82
Balance outstanding at end of year	15,552,661	0.59	17,816,823	0.61	17,279,890	0.62
Balance exercisable at end of year	9,960,260	0.45	12,083,088	0.48	10,697,010	0.43

The weighted average fair value of options granted during the year, estimated by using the Black & Scholes option-pricing model, was $0.07, $0.08 and $0.32 for 2003, 2002 and 2001, respectively. The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions: dividend yield of 0% for all relevant years; expected volatility of: 2003 – 45%, 2002 – 49% and 51% for 2001; risk-free interest rates (in dollar terms) of: 2003 – 2.75%, 2002 – 2.9% and 4.35% for 2001; and expected lives of: 5 years for 2003, 2002 and 2001.

3) The following table summarizes information about stock options outstanding at 31 December 2003:

	Options outstanding		*Options exercisable*	
	Balance at 31 December 2003 Number	*Weighted average remaining contractual life In years*	*Balance at 31 December 2003 Number*	*Weighted average remaining contractual life In years*
Exercise prices:				
NIS 0.02	2,600	1.22	2,600	1.22
US$0.10553	572,000	9.16		
US$0.25	125,000	9.68		
US$0.365	3,561,780	3.11	3,561,780	3.11
US$0.4818	711,400	8.68		
US$0.49723	6,395,880	4.66	6,395,880	4.66
US$0.766	147,600	7.71		
US$0.8514	211,400	8.20		
US$0.9313	2,099,701	7.38		
US$1.1	1,725,300	6.28		
	15,552,661		9,960,260	

	Options outstanding		*Options exercisable*	
	Balance at 31 December 2002 Number	*Weighted average remaining contractual life In years*	*Balance at 31 December 2002 Number*	*Weighted average remaining contractual life In years*
Exercise prices:				
NIS 0.02	856,700	2.22	856,700	2.22
US$0.365	3,561,780	4.11	3,561,780	4.11
US$0.49723	6,595,410	5.66	6,438,520	5.66
US$1.1	1,783,400	7.28	1,226,088	7.28
US$0.9313	3,776,250	8.38		
US$0.766	180,883	8.71		
US$0.8514	251,000	9.20		
US$0.4818	811,400	9.68		
	17,816,823		12,083,088	

	Options outstanding		*Options exercisable*	
	Balance at 31 December 2001 Number	*Weighted average remaining contractual life In years*	*Balance at 31 December 2001 Number*	*Weighted average remaining contractual life In years*
Exercise prices:				
NIS 0.02	856,700	2.32	856,700	2.32
US$0.365	3,561,780	5.00	3,561,780	5.00
US$0.49723	6,665,710	7.12	5,936,080	7.12
US$1.1	1,826,400	8.25	342,450	8.25
US$0.9313	4,062,900	9.37		
US$0.766	306,400	9.68		
	17,279,890		10,697,010	

c. Share Purchase Options:

1) According to specific agreements signed with consultants and members of the Scientific Advisory Board the Company has granted options to purchase ordinary shares as described below. These shares are not part of the plans described in b. above. Each option entitles the holder to purchase one ordinary share of NIS 0.02 par value of the Company.

The following table summarizes information about share purchase options granted.

	31 December		
	2003	*2002*	*2001*
		Number	
Balance outstanding at beginning of year	2,280,000	2,430,000	2,690,000
Changes during the year:			
Exercised			(208,000)
Forfeited	(75,000)	(150,000)	(52,000)
Total at end of year (1)	2,205,000	2,280,000	2,430,000
(1) Exercise price:			
$0.497-0.538	930,000	930,000	930,000
$2.11	1,275,000	1,350,000	1,500,000
	2,205,000	2,280,000	2,430,000
Exercisable by year end:			
Exercise price:			
$0.497-0.538	894,063	847,188	834,170
$2.11	1,275,000	1,125,000	731,250
	2,169,063	1,972,188	1,565,420

NOTE 6 – COMMITMENTS:

a. Royalty Bearing Agreements:

1) Under a Research and License agreement with Yeda Research and Development Company Ltd. (hereinafter ''Yeda''), the Company is committed to pay royalty payments at rates determined in the agreement not exceeding 3% of net sales, or royalty rates between 20% to 25% of sublicensing fees, for products in development and research under such an agreement.

2) Although the Company usually conducts its own research and development, it also enters where appropriate into participation agreements with third parties in respect of particular projects. In connection with such agreements the Company may incur royalty and milestone obligations commitments at varying royalty rates not exceeding 5% of future net sales or 25% of sublicensing fees of products developed, based on such agreements.

3) The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. At the time grants were received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed as above, the Company is not obligated to pay any such royalties. Under the terms of company's funding from the Israeli Government, royalties of 3% – 5% are payable on sales of products developed from projects so funded, up to 100% of the amount of the grant received by the Company (dollar linked); as from 1 January 1999 – with the addition of an annual interest based on Libor.

At 31 December 2003, the maximum amount of the contingent liability in respect of royalties to the government is $7,274,000.

b. Rental Commitments:

1) Premises occupied by the Company in Israel are rented under operating lease agreements.

Future minimum rental payments under these agreements (dominated in US dollars) are as follows:

	31 December 2003 *$in thousands*
In 2004	270
In 2005	225
In 2006	213
	708

To secure the lease agreements in Israel, the Company provided a bank guarantee. As of 31 December 2003, the guarantee is secured by pledge on a long-term deposit amounting to $159,000 linked to the Israeli Consumer Price Index (hereafter – CPI), which is included in the balance sheet as long-term deposit.

Rental expenses during the year ended 31 December 2003 amounted to $427,000, 31 December 2002 – $362,000 and 31 December 2001 – $302,000.

Premises occupied by the subsidiary in the US are on a monthly renewal basis.

2) The Company leases vehicles under the terms of certain operating lease agreements. These agreements expire in the years 2005 and 2006.

Future minimum lease payments – linked to the CPI – are as follows:

	31 December 2003 *$ in thousands*
In 2004	56
In 2005	13
In 2006	4
	73

Leases expense during the year ended 31 December 2003 amounted to $105,000, 31 December 2002 – $121,000 and 31 December 2001 – $84,000.

c. Other Commitments

The Company has commitments to pay amounts aggregating $1,566,000 in respect of research and development costs (mainly for subcontractors) for the following year.

NOTE 7 – TAXES ON INCOME:

a. The Company

Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter – the Law):

Under this law, results for tax purposes are measured in real terms, having regard to the changes in the CPI. The Company is taxed under this law.

Results for tax purposes are measured on a real basis – adjusted for the increase in the Israeli CPI. As explained in note 1b, the financial information is presented in dollars. The difference between the change in the Israeli CPI and the NIS-dollar exchange rate – both on annual and cumulative bases – causes a difference between taxable income and income reflected in this financial information.

Tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959 (hereinafter – the Law)

The Company has been granted an ''approved enterprise'' status under the law. Income derived from the approved enterprise during a period of 10 years from the year in which this enterprise first realize taxable income, provided the maximum period to which it is restricted by the law has not elapsed, is entitled to tax benefits as follows:

Tax exemption for 2 years and reduced tax rate for the remaining 8 years. The Company has not yet incurred taxable income. The reduced tax rate is dependent upon the percentage of foreign-owned holdings (10% – 25%). Since the Company is currently over 49% foreign owned, it is entitled to reduced tax at the rate of 20%.

If the Company distributed dividends from income derived from the approved enterprise during the period when it was tax exempt, the applicable tax rate will be 20%.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the law, regulations published there-under and the instruments of approval for the specific investment in approved enterprise. In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of interest.

Tax benefits under the Israeli law for the Encouragement of Industry (Taxation), 1969

The Company qualifies as ''industrial companies'' under the above law. In accordance with this law the Company is entitled to certain benefits including accelerated depreciation on industrial buildings and equipment, a deduction of 12.5% per year of the purchase price of a good-faith acquisition of patent and certain other intangible property rights.

Tax rates in Israel applicable to income from other sources

Income not eligible for ''approved enterprise'' benefits, mentioned above, is taxed at the regular rate of 36%. Currently, it is not applicable to the Company.

b. The subsidiary

The subsidiary is taxed according to the tax laws in its country of residence.

c. Current tax losses for tax purposes:

1) Company

Income tax of the Company is computed on the basis of the income in Israeli currency as determined for statutory purposes.

The Company incurred losses for tax purposes from inception.

The carryforward tax loss for tax purposes at 31 December 2003 is approximately $74,145,000, which may be offset against future taxable income, (also against capital gains) with no expiration date.

2) Subsidiary

The US subsidiary is taxed under the applicable US tax laws, and is working under a Cost Plus agreement with the Company. The subsidiary has incurred taxable income and recorded tax expenses. Since the taxes on income amounts are immaterial, they are included among general and administrative expenses in the statements of operations.

d. Deferred income taxes

The deferred income taxes are composed as follows:

	31 December		
	2003	*2002*	*2001*
		$ in thousands	
Current tax assets – in respect of provision for vacation and recreation pay	60	63	46
Long-term tax assets – in respect of:			
Carry forward tax losses	14,829	9,956	5,902
Severance pay liability – net	114	110	62
	15,003	10,129	6,010
Less – valuation allowance	(15,003)	(10,129)	(6,010)
	—,—	—,—	—,—

The deferred taxes were computed at the tax rate of 20% as of 31 December 2003, 2002 and 2001 (see also a. above).

e. Reconciliation of the theoretical tax expense to actual tax expense

Following is a reconciliation of the theoretical tax expense, assuming all income (loss) is taxed at the statutory rate applicable to the income of companies in Israel – 36%, and the actual tax expense:

	2003	*2002*	*2001*
		$ in thousands	
Loss as reported in the consolidated statements of operations, see also c(2) above	14,210	17,113	12,674
Theoretical tax saving	5,116	6,161	4,562
Less – effect of reduced tax rate applicable to ''approved enterprise''	2,274	2,738	2,027
	2,842	3,423	2,535
Increase (decrease) in tax saving resulting from:			
Timing differences in respect of which full valuation allowance was recorded (mainly in respect of carryforward tax losses, see d. above)	(4,874)	(4,119)	(1,848)
Differences in the basis of measurement for tax purposes (Israeli CPI) and for financial reporting purposes (dollar) and other	1,947	658	(690)
Other permanent differences, net	7	11	3
Taxes on income for the reported year, see also c (2) above	(78)	(27)	—,—

f. Tax assessments

The Company received tax assessments for the years up to and including the 1998 tax year. The subsidiary has not been assessed for tax purposes since incorporation.

NOTE 8 – SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

a. Short-term bank deposits:

The deposits are denominated in dollar and bear a weighted average annual interest rate of 1.17% as of 31 December 2003 (as of 31 December 2002 – 1.8%, 31 December 2001 – 2.44%).

b. Marketable securities:

1) Composed as follows:

	31 December		
	2003	*2002*	*2001*
		$ in thousands	
Debentures:			
Linked to the Israeli CPI	69	160	415
Unlinked	563	498	378
	632	658	793
Short-term treasury notes and bonds:			
Linked to the USD	10	10	—
Unlinked	107	969	385
	117	979	385
Total	749	1,637	1,178

2) Changes in marketable securities held for sale are as follows:

	2003	*2002*	*2001*
		$ in thousands	
Balance at beginning of year	1,637	1,178	1,191
Investments	71	1,219	995
Proceeds from sales	(1,048)	(716)	(953)
Reclassifications into earnings (loss) from other comprehensive income (loss)	62	(3)	(60)
Realized gain (loss) from sales	27	(41)	5
	749	1,637	1,178

c. Accounts receivable – other:

	31 December		
	2003	*2002*	*2001*
		$ in thousands	
Office of the Chief Scientist of the Israeli Ministry of Industry (“OCS”)	537		382
Prepaid expenses	119	92	334
Employees	36	47	20
Value Added Tax authorities	6	126	51
Interest Receivable	—	—	53
Sundry	8	1	32
	706	266	872

d. Accounts payable and accruals:

	31 December		
	2003	*2002*	*2001*
		$ in thousands	
Suppliers	1,334	799	1,166
Accrued expenses	1,077	1,041	685
Institutions and employees in respect of salaries and related benefits	280	338	416
Provision for vacation pay and recreation pay	300	315	233
Liability for employee rights upon retirement – current maturities (see also note 4)		74	105
Sundry	10	9	22
	3,001	2,576	2,627

Statements of operations:

e. Research and development costs:

	Year ended 31 December			*Period from 9 March 1993 to 31 December*
	2003	*2002*	*2001*	*2003*
		$ in thousands		
Wages, salaries and related benefits	3,450	3,958	3,484	18,169
Sponsored research and sub-contractors	6,799	5,575	*5,861	27,426
Laboratories supplies	1,128	1,653	1,345	7,652
Consulting	494	396	320	2,645
Rent and maintenance	866	926	707	3,279
Depreciation and amortization	369	415	263	2,440
Patent registration fees	125	71	19	746
Other	562	308	207	1,627
	13,793	13,302	12,206	63,984

* Including charges in respect of investment in iviGene, see also note 2.

f. General and administrative expenses:

	Year ended 31 December			Period from 9 March 1993 to 31 December
	2003	*2002*	*2001*	*2003*
		$ in thousands		
Wages, salaries and related benefits	1,244	1,704	1,326	9,190
Corporate communications	228	598	593	1,921
Professional fees	564	662	375	2,868
Director fees	183	181	152	1,144
Rent and maintenance	104	135	157	775
Communication	33	43	28	161
Depreciation and amortization	70	55	111	547
Other	*632	216	240	2,181
	3,058	3,594	2,982	18,787

* Including an amount of $344,000 in respect of the Annual General Shareholder Meeting in 2003.

g. Business development costs:

Wages, salaries and related benefits	408	567	755	2,091
Travel	136	140	211	706
Professional fees	120	209	101	679
	664	916	1,067	3,476

h. Financial income, net:

Financial income:				
Interest	458	1,360	3,185	8,428
Foreign exchange rate				136
Gain from available for sale securities	62			
Other				156
	520	1,360	3,185	8,720
Financial expenses:				
Foreign exchange rate	148	733	694	1,921
Interest				374
Loss from available for sale securities		3	20	14
Other	20	27	23	63
	168	763	737	2,372
Financial income, net	352	597	2,448	6,348

NOTE 9 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

a. Linkage terms of balances in non-dollars currency:

1) As follows:

	Israeli Currency		
	Linked to the CPI	*Unlinked*	*Other*
		$ in thousands	
Assets 31 December 2003	69	2,917	3
Liabilities 31 December 2003		1,492	
Assets 31 December 2002	160	2,447	9
Liabilities 31 December 2002		1,538	
Assets 31 December 2001	187	13,855	
Liabilities 31 December 2001		2,299	120

The above balances do not include Israeli currency balances linked to the dollar.

2) Data regarding the changes in the exchange rate of the dollar and the Israeli CPI:

	Year ended 31 December		
	2003	*2002*	*2001*
Devaluation (evaluation) of the Israeli currency against the dollar	(7.6)%	7.3%	9.3%
Changes in the Israeli CPI	(1.9)%	6.5%	1.4%
Exchange rate of one dollar (at end of year)	NIS 4.379	NIS 4.737	NIS 4.416

b. Fair value of financial instruments

The financial instruments of the Company and of its subsidiary consist of non-derivative assets and liabilities, included in working capital.

In view of their nature, the fair value of these financial instruments is usually identical or close to their carrying value.

c. Concentration of credit risks

Most of the Company's and its subsidiary cash and cash equivalents and short-term investments at balance sheet dates were deposited with Israeli banks. The Company is of the opinion that the credit risk in respect of those balances is remote.

NOTE 10 – BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

Related Parties comprise of a principal shareholder of the Company, associated company and directors of the Company.

Balance with related parties:

	2003	*2002*	*2001*
		$ in thousands	
Accounts payable and accruals	130	60	—

Transactions with related parties:

	2003	*2002*	*2001*
		$ in thousands	
Research and development expenses	175	25	*2,050
General and administrative expenses	183	181	152

* See also note 2.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names appear in paragraph 5.1 of this Part VI, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and Registration

(i) The Company was incorporated and registered in Israel on 9 March 1993 under the Ordinance as a private company limited by shares, with registered number 51-178977-0 under the name Xenograft Technologies Ltd. On 7 June 1993, the Company was re-registered as a public company under number 52-003947-0.

(ii) The Company has its registered office at Kiryat Weizmann Science Park, Building 3, 3 Hasapir Street, Rehovot 76100, Israel.

(iii) The Company does not have a place of business in the United Kingdom.

(iv) The name of the Company was changed on 3 July 1995 to XTL Biopharmaceuticals Ltd. The principal legislation under which the Company currently operates is the Israeli Act.

3. Share Capital

3.1 Immediately following the admission of the Company's Ordinary Shares to the Official List of the UK Listing Authority on 26 September 2000, the authorised share capital of the Company was NIS6,000,000 divided into 300,000,000 Ordinary Shares of NIS0.02 each, of which 108,009,900 were issued and fully paid. Since 26 September 2000, there have been the following changes to the issued share capital of the Company:

(a) On 26 October 2000, the Company issued 2,850,000 Ordinary Shares following the exercise of an over-allotment option granted to WestLB Panmure, at a price of 150p per share.

(b) On 12 May 2001, the Company issued 11,988 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(c) On 17 June 2001, the Company issued 44,100 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(d) On 31 August 2001, the Company issued 26,000 Ordinary Shares following the exercise by a consultant of the Company of options granted to such consultant under the Company's Share Option Schemes.

(e) On 12 September 2001, the Company issued 52,000 Ordinary Shares following the exercise by a consultant of the Company of options granted to such consultant under the Company's Share Option Schemes.

(f) On 18 September 2001, the Company issued 26,000 Ordinary Shares following the exercise by a consultant of options granted to such consultant under the Company's Share Option Schemes.

(g) On 30 September 2001, the Company issued 1,750 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(h) On 23 October 2001, the Company issued 104,000 Ordinary Shares following the exercise by a consultant of options granted to such consultant under the Company's Share Option Schemes.

(i) On 20 November 2001, the Company issued 1,300 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(j) On 21 November 2001, the Company issued 22,376 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(k) On 25 February 2002, the Company issued 1,750 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(l) On 27 February 2002, the Company issued 4,200 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(m) On 22 April 2002, the Company issued 10,000 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(n) On 3 March 2003, the Company issued 13,000 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(o) On 12 May 2003, the Company issued 832,000 Ordinary Shares following the exercise by employees and directors of options granted to such employees and directors under the Company's Share Option Schemes.

(p) On 3 June 2003, the Company issued 4,550 Ordinary Shares following the exercise by employees of options granted to such employees under the Company's Share Option Schemes.

(q) On 4 August 2003, the Company issued 3,250 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(r) On 17 December 2003, the Company issued 1,300 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

3.2 Subject to the passing of the first resolution set out in the notice of Extraordinary General Meeting at the end of this document, the Directors will be generally and unconditionally authorised to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of NIS 1,120,195, such authority to expire 15 months from the passing of the resolution or, if earlier, the conclusion of the next annual general meeting of the Company.

3.3 Subject to the passing of the second resolution set out in the notice of Extraordinary General Meeting at the end of this document, the Directors will be empowered to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply, such power being limited to the allotment of equity securities in connection with the Fundraising.

3.4 The Articles confer on Shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash. These rights which apply to the allotment of unissued Ordinary Shares to the extent that such rights are not disapplied as described in paragraph 3.3 above.

3.5 The following table shows the authorised and issued share capital of the Company as it will be immediately prior to, and following, the Fundraising:

	Immediately prior to the Fundraising *Ordinary Shares*		*Following the Fundraising*[(1)] *Ordinary Shares*	
	Number	*NIS*	*Number*	*NIS*
Authorised	300,000,000	6,000,000	300,000,000	6,000,000
Issued and fully paid	112,019,464	2,240,389	168,029,196	3,360,584

Note: (1) – assumes that all New Ordinary Shares are subscribed pursuant to the Fundraising.

3.6 As at the date of this document, 910,000 warrants are held by consultants to the Company at an average price of US$1.061, in the range of US$0.196 to US$2.11. 740,000 of such warrants are exercisable not later than September 2010. 170,000 of such warrants are exercisable within a period of two years from the achievement of certain milestones.

3.7 At the date of this document, option holders who are Directors, officers or employees of the Company are entitled to exercise options to subscribe for a total of 17,177,661 Ordinary Shares. These options are exercisable not later than September 2013 at an average price of US$0.65, in the range of between less than one cent and US$2.11.

3.8 The New Ordinary Shares will be issued fully paid and all Ordinary Shares will be in registered form and are capable of being held in uncertificated form by way of Depository Interest. Otherwise than pursuant to the Fundraising, none of the New Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to the Official List. Temporary documents of title will not be issued in connection with the Fundraising.

3.9 The Issue Price of 17.5p represents a premium of 7,140 *per cent* to the nominal value of NIS 0.02 per Ordinary Share on the basis of an exchange rate of NIS8.16 for each £1 and that the assumed nominal value of the Ordinary Shares for this purpose is 0.245p.

3.10 Following the Fundraising and after allowing for Ordinary Shares reserved for issue pursuant to the exercise of options granted under the warrants and Share Option Schemes referred to in paragraphs 3.6 and 3.7, approximately 113,883,143 Ordinary Shares will remain authorised but unissued and unreserved representing approximately 67.8 *per cent* of the issued ordinary share capital of the Company. The Directors have no present intention of issuing any of these Ordinary Shares.

4. Articles of Association

4.1 The objects of the Company are set out in clause 3 of its Articles and state that the Company may carry on any lawful activity.

4.2 The following is a summary of the material provisions of the Articles adopted by resolution of the Shareholders of the Company on 5 December 2000, including the rights attaching to the Ordinary Shares:

(a) *Dividends*

The Board shall, from time to time, and not less than once per year, determine the amount of profits which shall be appropriate for distribution as a dividend, all in accordance with the provisions of the Israeli Act and pursuant to the on-going requirements and approved development plans of the Company, taking into consideration the range of the financial reserves and the predicted cashflows of the Company and also its financial leverage.

Any dividend unclaimed for a period of twelve years after having become due for payment will be forfeited and revert to the Company.

(b) *Voting*

A resolution at a general meeting shall be carried by a vote of the members present and voting at the meeting, in person or by proxy. Every question submitted to a general meeting shall be decided by a show of hands, but if a written ballot is demanded by a majority of the members present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot.

Each resolution of the general meeting (including a resolution with respect to the amendment, alteration or addition to the Articles or any replacement thereof) shall be carried by a simple majority.

Each share shall entitle the holder thereof to one vote for each share owned by him and to which a voting right is attached without regard to the nominal value of that share, unless the terms of issue of the share provide otherwise. There are no restrictions on voting contained in the Articles.

(c) *Variation of Rights*

Notwithstanding any other provision in the Articles to the contrary, the rights attached to any class of shares may be modified or abrogated by the Company, by resolution requiring the approval of shareholders holding three-quarters of the voting rights in the relevant class of shares in the Company. Subject to the terms of issue or of rights attached to any class of shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Articles.

(d) *Pre-emption Rights*

Subject to the provisions of the Articles and to the terms of any resolution to the contrary passed by the Company in general meeting, the Company shall not allot any shares to any person unless it shall first have made an offer to each person who holds shares in it to allot to him shares on the same or more favourable terms a proportion of those shares which is, as nearly as practical, equal to the proportion in nominal value of relevant shares held by him on the date of any such allotment, but subject to all exclusions or other arrangements as the Directors may deem necessary or expedient in their exclusive discretion to deal with fractional entitlements or legal or practical problems under the laws, or the requirements, of any regulatory authority or stock exchange in any jurisdiction. In the case of any such problems thought by the Directors to arise out of United Kingdom legal or regulatory requirements, the Directors must take and in good faith consider appropriate advice before deciding upon any exclusion or arrangement. This provision does not apply to a particular allotment of shares if these are, or are to be, wholly or partly paid up otherwise than in cash and does not apply to shares which the Company has offered to allot to a holder of relevant shares or anyone in whose favour he had renounced his right to their allotment.

(e) *Allotment of Shares*

The Company may pass a resolution of its shareholders authorising the Directors to allot relevant securities (as defined in section 80(2) of the Act) and, upon the passing of such a resolution, the Directors shall be authorised to allot relevant securities provided that the nominal amount of such securities where they are shares, and, where such securities are not shares, the nominal amount of the shares in respect of which such securities confer the right to subscribe or convert, shall not exceed in aggregate the sum specified in such resolution and that such authority shall (unless otherwise specified in such resolution or varied or abrogated by resolution passed at an intervening extraordinary general meeting) expire at the conclusion of the general meeting of the Company next following the passing of such resolution save that the Company shall be entitled before such expiry to make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors shall be entitled to allot relevant securities in pursuance of such offer or agreement as if such authority had not expired, and all (if any) previous authorities shall thenceforth cease to have effect.

The Company may pass a resolution of its shareholders holding at least 75 *per cent* of the voting power of the Company, authorising the Directors to allot equity securities (as defined in sections 89 to 96 of the Act) for cash and upon such resolution being passed the Directors shall (subject to their being authorised to allot relevant securities in accordance with the above be empowered to allot (pursuant to any such authority) equity securities for cash, provided that such power shall be limited to the allotment of equity securities having, in the case of relevant shares, a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate the nominal amount specified in such resolution, and such power shall (unless otherwise specified in such special resolution or varied or abrogated by special resolution passed at an intervening extraordinary general meeting) expire at the conclusion of the annual general meeting of the Company next following the passing of such resolution save that the Company shall be entitled before such expiry to make an offer or agreement which would or might

require equity securities to be allotted after such expiry and the Directors shall be entitled to allot equity securities in pursuance of such offer or agreement if such authority had not expired.

(f) *Transfer of Shares*

No transfer of shares shall be registered unless a proper writing or instrument of transfer (in any customary form or any other form satisfactory to the Directors) has been submitted to the Company (or its transfer agent), together with the share certificate(s) and such other evidence of title as the Directors may reasonably require. Until the transferee has been registered in the register of members of the Company in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof.

(g) *Alteration of Capital*

The general meeting of the Company may, from time to time, by resolution requiring the approval of shareholders holding a majority of the voting rights in the Company: (i) increase its share capital; (ii) consolidate and divide all or any of its issued or unissued authorised share capital into shares of a per share nominal value which is larger than the per share nominal value of its existing shares; (iii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by the Articles (subject, however, to the provisions of the Israeli Act); (iv) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; or (v) reduce its share capital in any manner, and with and subject to any incident authorised, and consent required, by law.

(h) *Director Voting*

At a vote of the Board, each Director shall have one vote. Decisions of the Board shall be carried by a simple majority of the Directors voting on any matter on the agenda.

(i) *Remuneration*

Subject to any approvals required by law, a Director shall be entitled to receive from the Company remuneration, benefits, and reimbursement or payment on account of expenses.

(j) *Borrowing Powers*

The Company can borrow or secure the payment of any sum of money for the purposes of the Company, and can secure or provide for the repayment of such sum upon such terms and conditions as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertakings or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(k) Retirement

The Directors shall be appointed by a simple majority of the shareholders at a duly convened general meeting. The Directors' term of office shall expire upon the closing of the next general meeting appointing Directors. A Director may be removed from office by a simple majority of the shareholders of the Company at a duly convened general meeting.

(l) *Return of Capital*

A general meeting may adopt a resolution for the winding-up of the Company, provided that the resolution is passed by the majority required by law, and in the absence of any legal requirement for a specific majority, by the majority required in accordance with the Articles.

If the Company is wound up and the assets available for distribution among the shareholders are not sufficient for payment in full of the paid up share capital of the Company, the assets shall be distributed, as far as possible, so that shareholders will bear the losses proportionately to the share capital paid or that should have been paid by the commencement of the winding up, and the number of shares held by the shareholders. If the Company is wound up and the assets available for distribution

among the shareholders are more than sufficient for payment in full of the paid up share capital at the time of commencement of the winding up, the surplus shall be distributed among the shareholders proportionately to the share capital paid or that should have been paid by the commencement of the winding up, and the number of shares held by the shareholders. The aforesaid shall not affect the rights of holders of any shares issued with special rights.

For the purposes of the distribution of the assets of the Company at the time of a liquidation, no account shall be taken of any payments that have been made by way of share premium.

If the Company is wound up, by way of voluntary liquidation or otherwise, the liquidators may, if the approval of the general meeting is given with the majority required by law distribute any portion of the assets of the Company among the shareholders in specie, and the liquidators may, subject to receiving approval as aforesaid, deposit any part of the assets of the Company with trustees upon trust for the benefit of the shareholders. A general meeting that approves any distribution as aforesaid may also approve a distribution in a manner other than in accordance with the legal rights of the shareholders and may grant special rights to any class of shareholders, provided that if a resolution is adopted authorising any distribution other than in accordance with the legal rights of the shareholders, a shareholder who has been harmed thereby shall have the right to object, in the same manner as if the resolution had been adopted by the majority required in section 334 of the Ordinance.

(m) *Insurance, Release and Indemnification of Officers*

The Company may enter into agreements from time to time to insure officers against any liability incurred as a result of certain actions carried out whilst an officer of the Company.

The Company may also indemnify (or undertake to indemnify (with shareholder consent)) officers in respect of a liability or expense imposed on him as a result of action taken in his capacity as an officer and may also (with shareholder consent) release officers in advance from liability for damage suffered by the Company as a result of any breach of duty by an officer.

(n) *Certificated Form*

The Company may allow for shares in the Company to be issued, held, registered, converted to, transferred or otherwise dealt with in uncertificated form and converted from uncertificated form to certificated form in accordance with the Regulations and practices instituted by the operator of the CREST system.

5. Directors' and Other Interests

5.1 The Directors of the Company and their respective functions are as follows:

Executive	*Function*
Martin Becker	Chief Executive Officer
Jonathan Burgin	Chief Financial Officer
Shlomo Dagan	Chief Scientific Officer
Glenn Kazo	Chief Business Officer
Non-executive	*Function*
Geoffrey Vernon	Non-executive Director and Chairman
Elkan Gamzu	Non-executive Director
Ehud Geller	Non-executive Director
Rusi Kathoke	Non-executive Director
Patricia Smith	Non-executive Director
Peter Stalker III	Non-executive Director

5.2 The business address of all of the Directors is Kiryat Weizmann Science Park, Building 3, 3 Hasapir Street, Rehovot 76100, Israel, the Company's registered office.

5.3 As at 30 June 2004 2004 (being the latest practicable date prior to the publication of this document), the interests of the Directors and persons connected with them in the share capital of the Company the existence of which is known to or could with reasonable diligence be ascertained by that Director, whether or not held through another party, together with any options, were as follows:

	Immediately prior to the Fundraising			*Immediately following the Fundraising*[1]		
	Ordinary Shares (Beneficial)	*Options*	*Per cent (on fully diluted basis)*	*Ordinary Shares (Beneficial)*	*Options*	*Per cent (on fully diluted basis)*
EXECUTIVE						
Martin Becker	860,000	3,778,333	3.57	875,763	3,778,333	2.50
Jonathan Burgin	20,000	1,382,053	1.08	20,000	1,382,053	0.75
Shlomo Dagan	57,000	2,031,333	1.61	57,000	2,031,333	1.12
Glenn Kazo	135,000	1,876,667	1.55	135,000	1,876,667	1.08
NON EXECUTIVE						
Geoffrey Vernon	70,000[2]	800,000	0.71	100,000[2]	800,000	0.48
Elkan Gamzu	40,000	525,000	0.43	118,817	525,000	0.35
Ehud Geller	78,360	300,000	0.29	78,360	300,000	0.20
Rusi Kathoke	15,000	—	0.01	15,000	—	0.01
Patricia Smith	60,000	—	0.05	75,763	—	0.04
Peter Stalker III	—	—	—	315,270	—	0.17

Note (1): Assumes that the Directors take up their respective maximum subscriptions under the Directors' Subscriptions. It is also assumed that Resolutions 3 to 7 to be proposed at the EGM authorising the issuance of New Ordinary Shares to the Directors are duly approved and that to the extent that 455,613 New Ordinary Shares are subscribed pursuant to the Directors' Subscriptions that no such shares are subject to reduction to satisfy valid applications pursuant to the Open Offer.

Note (2): Dr. Vernon's interest is non-beneficial and is held by Ziggus Holdings Ltd.

5.4 Peter Stalker III and Elkan Gamzu have conditionally agreed to subscribe for 315,270 New Ordinary Shares and 78,817 New Ordinary Shares respectively pursuant to the US Private Placement; Patricia Smith, Martin Becker and Geoffrey Vernon have conditionally agreed to subscribe for 15,763 New Ordinary Shares, 15,763 New Ordinary Shares and 30,000 New Ordinary Shares respectively pursuant to the Israeli Private Placement. Such subscriptions are subject to reduction to satisfy valid claims under the Open Offer. These subscriptions are conditional upon the passing of Resolutions 3, 4, 5, 6 and 7 respectively to be proposed at the EGM authorising the issuance of New Ordinary Shares to the Directors. In the event that such resolutions are not approved, the Directors would not be permitted to subscribe. The conditional subscriptions of Mr. Stalker III and Dr. Gamzu, being part of the US Private Placement, and Dr. Smith, Dr. Vernon and Dr. Becker, being part of the Israeli Private Placement, are not being underwritten by Altium Capital pursuant to the UK Placing and Open Offer Agreement.

5.5 Each of the Directors (other than Peter Stalker) have signed irrevocable undertakings not to take up their entitlements to New Ordinary Shares pursuant to the Open Offer. Such New Ordinary Shares have been placed firm with institutional investors in the UK pursuant to the UK Placing.

5.6 The following options granted to Directors under the Share Option Schemes are currently outstanding, as set out below:

Name	*Number of Ordinary Shares*	*Exercise price (US$)*	*Date of grant and start of exercise period*	*End of exercise period*
EXECUTIVE				
Martin Becker	1,261,000	0.3650	January 1997	January 2007
Martin Becker	2,274,000	0.4970	October 1998	October 2008
Martin Becker	243,333	0.9313	May 2001	May 2011
Jonathan Burgin	678,720	0.4970	August 1999	August 2009
Jonathan Burgin	580,000	1.1000	April 2000	April 2010
Jonathan Burgin	123,333	0.9313	May 2001	May 2011
Shlomo Dagan	782,780	0.3650	January 1997	January 2007
Shlomo Dagan	1,105,220	0.4970	October 1998	October 2008
Shlomo Dagan	143,333	0.9313	May 2001	May 2011
Glenn Kazo	840,000	0.497	August 1999	August 2009
Glenn Kazo	840,000	1.1000	April 2000	April 2010
Glenn Kazo	196,667	0.9313	May 2001	May 2011

Name	*Number of Ordinary Shares*	*Exercise price (US$)*	*Date of grant and start of exercise period*	*End of exercise period*
NON-EXECUTIVE				
Geoffrey Vernon	*500,000*	*0.4970*	*October 1998*	*October 2008*
Geoffrey Vernon	*300,000*	*2.1100*	*September 2000*	*April 2010*
Elkan Gamzu	*225,000*	*0.4970*	*July 1999*	*July 2011*
Elkan Gamzu	*300,000*	*2.1100*	*September 2000*	*April 2010*
Ehud Geller	*300,000*	*2.1100*	*September 2000*	*April 2010*

All options under the Share Option Schemes were granted for nil consideration.

5.7 On 24 October 1998, Dr. Martin Becker entered into an employment agreement with the Company as Chief Executive Officer. Dr. Becker is entitled to receive an annual salary, which is currently US$280,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and approved by the Board. The Company shall pay any US tax liability imposed on Dr. Becker due to his employment by the Company and he is also entitled to receive benefits comprising managers' insurance, advanced training fund and a company car. There is a non-compete clause surviving two years after termination of employment preventing Dr. Becker from competing in any project in which the Company is engaged at that time and preventing him from competing directly or indirectly with the Company or soliciting employees or customers of the Company. The employment agreement is for a term of four years expiring on 23 October 2002 unless terminated by either party giving six months' prior notice. Dr. Becker is entitled, on termination of his employment, to receive a sum amounting to his annual salary, less any amounts contained in the managers' insurance for severance pay. On 24 October 2002, Dr. Becker and the Company entered into an amendment to the employment agreement by which the employment agreement was automatically extended for consecutive one year periods, unless terminated by either party giving six months' prior notice.

5.8 On 1 August 1999, Jonathan Burgin entered into an employment agreement with the Company as Chief Financial Officer. Mr. Burgin is entitled to an annual salary which is US$140,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and set by the Board and he is also entitled to receive benefits comprising managers' insurance, advanced training fund and use of a company car. There is a non-compete clause surviving one year after termination of employment, preventing Mr. Burgin from competing directly or indirectly with the Company, or soliciting employees or customers of the Company. The employment agreement is terminable by either party giving three months' notice to the other and in the event that the Company terminates his employment, Mr. Burgin is entitled to an additional three months' salary.

5.9 On 1 May 1994, Dr. Shlomo Dagan entered into an employment agreement with the Company. Dr. Dagan is currently employed as Chief Scientific Officer. Dr. Dagan is entitled to an annual salary which is currently US$165,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and set by the Board and he is also entitled to receive benefits comprising managers' insurance, advance training fund and use of a company car. There is a non-compete clause surviving two years after termination of employment. The employment agreement shall be renewed automatically every two years in accordance with its terms unless terminated by either party giving three months' written notice. Any renewals are subject to renegotiation.

5.10 On 21 July 1999, Glenn Kazo entered into an employment agreement with the Company as Chief Business Officer of the Company and general manager of the Company's wholly-owned US subsidiary. Mr. Kazo is entitled to an annual salary which currently is in the amount of US$225,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and set by the Board. The employment agreement also details the award certain stock options, the amount of which is detailed in the table set out in paragraph 5.5 above. In addition, the Company has agreed to reimburse Mr. Kazo on a grossed up basis on amounts paid for the premiums on his existing life insurance policy, and pay for his current health

insurance benefits. The employment is at will, which means that either party may terminate the employment at any time with or without cause. In the event of termination, Mr. Kazo is entitled to six months' severance pay.

5.11 By an agreement dated 15 October 1998 (as amended), Ziggus Holdings Ltd entered into a consulting agreement with the Company whereby consulting services would be provided by Dr. Geoffrey Vernon. The remuneration for services performed by Dr. Vernon on behalf of Ziggus Holdings Ltd to the Company is fixed at an annual gross fee of US$100,000. The Company is responsible for any deductions that may be required by law. The agreement is extended automatically annually, unless terminated by either party giving three months' notice.

5.12 All non-executive Directors (except for Peter Stalker III (as to which, please refer to paragraph 5.13 below) and Ehud Geller) have entered into written service agreements which set out that each such non-executive Director is entitled to an annual salary of £10,000 together with a payment of £1,000 for attendance at each board meeting and £500 for attendance at each committee meeting. In addition, the Company reimburses each non-executive Director for any reasonable out-of-pocket expenses. During and for three years after termination of appointment, the non-executive Director will observe the obligations of confidentiality which are attendant on the office of director. The appointment is to continue unless such non-executive Director terminates the agreement upon giving the Company not less that two months' written notice or the term of such non-executive Director ends under the terms of appointment. Ehud Geller does not have a written service agreement and does not receive any annual reimbursement.

5.13 Peter Stalker III has entered into a written service agreement with the Company, according to which, the Company has agreed, subject to approval at the next annual general meeting, to remunerate Peter Stalker III for his services as a non-executive Director of the Company, in lieu of the remuneration granted to all non-executive Directors (as detailed in paragraph 5.11 above), by (a) a one-time grant of 60,000 options to purchase 60,000 Ordinary Shares, nominal value NIS 0.02 of the Company (the ''Options''), at an exercise price per such option equal to the average price per share, as quoted on the London Stock Exchange, in the three (3) days preceding 12 January 2004 (the date on which he joined the Board), such Options to vest over three (3) years so that upon the first, second and third anniversary of 12 January 2004, he shall be entitled to exercise 1/3 of the Options granted, provided that during such time he is still a member of the Board; and (b) payment of an annual salary equal to US$15,000, payable quarterly in four equal instalments, for the duration of the period he serves as a member of the Board.

5.14 Other than as set out in paragraph 5.7 above, there are no employment agreements with any of the Directors with a notice or contract period of one year or more or with provisions for predetermining compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.

5.15 The aggregate remuneration paid and benefits in kind of any description whatsoever granted to the Directors by members of the Group for the financial year ended 31 December 2003 amounted to US$1,093,000 including pension contributions and other benefits.

5.16 There are no outstanding loans granted by any member of the Group to any Director nor has any guarantee been provided by any member of the Group for their benefit.

5.17 The estimated total amount payable to the Directors by any member of the Group for the current financial year under the arrangements in force at the date of this document including pension contributions and other benefits is US$1,190,000.

5.18 No Director has any interest in any transaction which is or was unusual in its nature or conditions or is or was significant in relation to the business of the Group and which was effected by the Company during the current or immediately preceding financial year or during any earlier financial year and remains in any respect outstanding or unperformed.

5.19 Under section 278 of the Israeli Act, no Director who has any personal interest in any proposal, arrangement or contract may vote on such proposal, arrangement or contract at any meeting of the Board or meeting of the Audit or Remuneration Committee of the Board.

5.20 In the five years preceding the date of this document, the following Directors are or have been directors or partners of the following companies or partnerships (excluding the subsidiaries of any company listed below):

Director	*Current Directorships*	*Former Directorships*
Geoffrey Vernon	Advanced Medical Solutions plc Ziggus Holdings Ltd Talia Technology Ltd Bionex Investments plc Medisys plc Ketocytonics Inc BMR Ltd MorphoSys AG Bioniche Pharma Group XL Techgroup plc XL TechGroup, LLC	Develogen Ag InterCell Ag Ark Therapeutics Ltd Drug Abuse Sciences, Inc Drug Abuse Sciences SAS Peptor Ltd Arrow Therapeutics Ltd
Martin Becker	None	None
Jonathan Burgin	None	None
Shlomo Dagan	None	None
Glenn Kazo	Prolong Pharmaceuticals, Inc	iviGene Corporation
Elkan Gamzu	Pharmos Corporation Neurotech SA Hypnion, Inc BioPharm Analysis, LLC Descartes Therapeutics, Inc NeuroHealing Pharmaceuticals, Inc	Rho-ADDS SAS Clal Biotechnology Industries
Ehud Geller	Collgard Biopharmaceuticals Ltd Ester Neurosciences Ltd Argomed, Inc Medica Venture Partners LP InterCure Ltd AD Archimedes Ltd Geller Yozmot Ltd Orex Computed Radiography Ltd	Eltek Ltd
Peter Stalker III	Biogenex, Inc OSA Technologies Bourgeon Capital Management, LLC TSG Partners	None
Rusi Kathoke	BTG plc	None
Patricia Smith	Biomedical Research Ltd Paratek Pharmaceutical, Inc Hartshead Healthcare Ltd (UK)	None

5.21 Save for Medica Venture Partners LP which owns 2,374,020 Ordinary Shares in the Company and Ziggus Holdings Ltd which is the holder of 70,000 Ordinary Shares in the Company, none of the companies or partnerships referred to in paragraph 5.20 above are currently shareholders in the Company.

5.22 None of the Directors has:

(a) any unspent convictions in relation to indictable offences;

(b) at any time been adjudged bankrupt or at any time been a party to any form of individual voluntary arrangement;

(c) been subjected to any public criticism by any statutory or regulatory authority (including designated professional bodies);

(d) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company;

(e) been a director with an executive function of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director with an executive function or within the twelve months preceding such events;

(f) been a partner in a partnership which has been placed in compulsory liquidation or administration or entered into any partnership voluntary arrangement whilst he was a partner or within the twelve months preceding such events; or

(g) any asset which has been placed in receivership or been a partner of any partnership whose assets have been placed in receivership whilst he was a partner of such partnership or within the twelve months preceding such event.

5.23 In so far as is known to the Company, as at 30 June 2004 (being the latest practicable date prior to the publication of this document), the following persons (other than the Directors) were interested, directly or indirectly, in three *per cent* or more of the issued share capital of the Company:

	Immediately prior to Fundraising	*%*	*Immediately following Fundraising*[1]	*%*
Israel Healthcare Ventures Ltd	16,416,870	14.66	16,416,870	9.77
Perpetual Income & Growth Investment Trust plc	8,138,715	7.27	8,138,715	4.84
Julius Baer	5,309,500	4.74	5,309,500	3.16
Yeda Research & Development	4,699,930	4.20	4,699,930	2.80
Merlin Biosciences Fund LP	4,454,550	3.98	4,454,550	2.65
Inventech Investment Company	3,652,290	3.26	3,652,290	2.17

(1) Assuming no participation in the Fundraising.

Save as set out above and in paragraph 5.3, the Company is not aware of any person who is interested, directly or indirectly, in three *per cent* or more of the issued share capital of the Company.

5.24 The Company is not aware of any person who exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company.

5.25 Ronen Kantor, the Company Secretary, is the principal at Kantor & Co, solicitors to the Company in Israel, which provides legal services in the ordinary course of business to the Company (including in connection with the Fundraising), for which it receives payment. At the date of this document Mr. Kantor holds 53,180 Ordinary Shares which were purchased by him for cash in the market.

6. Share Option Schemes

The Company has issued to employees, key officers and Directors options to subscribe for up to 17,177,661 Ordinary Shares, assuming the conversion of all of the existing shares in the Company into Ordinary Shares under the five Share Option Schemes currently in place.

6.1 Share Option Scheme 1993

6.1.1 Under a share option scheme established in 1993 (the ''1993 Scheme''), the Company granted options to employees of the Company to subscribe at nominal value (NIS 0.02) for Common A Shares, 2,600 of which are outstanding. These options were granted in accordance with Section 102 of the Israeli Income Tax Ordinance 1961 (the ''Tax Ordinance''). The options are non-transferrable.

6.1.2 The 1993 Scheme terminated in August 2003 but any options granted thereunder and outstanding are still exercisable until May 2005. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The exercise price of the options is nominal value (NIS 0.02) per Ordinary Share. The options were granted for nil consideration. All options under the 1993 Scheme are fully vested.

6.2 Share Option Scheme 1998

6.2.1 Under a Share Option Scheme established in 1998 (the ''1998 Scheme''), the Company granted options to a trustee under section 3(i) of the Tax Ordinance for the employees of the Company (including Directors who are employees), of which 3,561,780 are outstanding at an exercise price per share of US$0.365. The options are non-transferable.

6.2.2 The 1998 Scheme shall terminate in February 2007. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The options were granted for nil consideration and are fully vested.

6.3 Share Option Scheme 1999

6.3.1 Under a share option scheme established in 1999 (the "1999 Scheme"), the Company granted options to a trustee under section 3(i) of the Tax Ordinance for employees of the Company (including Directors who are employees), of which 6,395,880 are outstanding, at an exercise price of US$0.497. The options are non-transferable.

6.3.2 The 1999 Scheme shall terminate in August 2009. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The options were granted for nil consideration. All options are fully vested.

6.4 Share Option Scheme 2000

6.4.1 Under a share option scheme established in 2000 (the "2000 Scheme"), the Company granted options to a trustee under section 3(i) of the Tax Ordinance for employees of the Company (including Directors who are employees), of which 1,725,300 are outstanding, at an exercise price of US$1.100. The options are non-transferable.

6.4.2 The 2000 Scheme shall terminate in April 2010. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The options were granted for nil consideration. All options are fully vested.

6.5 Share Option Scheme 2001

6.5.1 Under a share option scheme established in 2001 (the "2001 Scheme"), the Company granted options to employees of the Company (including Directors who are employees), of which 3,867,101 are outstanding at an exercise price per share between US$0.106 and US$0.931. These options were granted in accordance with section 102 of the Tax Ordinance, under the capital gains option set out in section 102(b)(2) of the ordinance. The options are non-transferable.

6.5.2 The 2001 Scheme will terminate in May 2011 (except as regards options outstanding at that date). The options were granted for nil consideration. All options vest on an annual basis for three years. To date, 1,855,925 options are vested.

7. Working Capital

The Company is of the opinion that, taking into account the net proceeds of the UK Placing, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

8. Subsidiaries and Investments

The Company is the holding company of the following subsidiary undertaking:

Name	*Registered Office*	*Field of Activity*	*Proportion of capital held*
XTL Biopharmaceuticals, Inc.	One Broadway, Suite 600, Cambridge, MA 02142, USA	Business Development, Clinical Trials and Product Development	100 *per cent*

The Company also holds 20 *per cent* of the issued and outstanding share capital of iviGene Corporation, a Delaware, United States incorporated company.

9. Principal Establishment

The principal establishment of the Group, which is leased, is as follows:

Address	*Expiry Date of Lease*	*Approximate size*
Kiryat Weizmann Science Park Building 3, 3 Hasapir Street, Rehovot 76100, Israel	31 December 2006	1,867 sq metres

10. Material Contracts

Other than as set out in this paragraph, there are no contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company or its subsidiary:

(i) within the two years immediately preceding the date of this document which are material; or

(ii) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

(a) The UK Placing and Open Offer Agreement dated 1 July 2004 between (1) the Company, (2) Code Securities and (3) Altium Capital, whereby Code Securities has agreed, subject to the terms and conditions set out therein, to procure placees to acquire 32,239,021 New Ordinary Shares at the Issue Price, and Altium Capital has agreed to underwrite the New Ordinary Shares which are the subject of the UK Placing at the Issue Price. The UK Placing and Open Offer Agreement is conditional upon, *inter alia*, the passing of Resolutions 1 and 2 contained in the notice of EGM set out at the end of this document and Admission taking place not later than 8.00 am on 3 August 2004 or such later date as Code Securities and Altium Capital may agree (but no later than midnight on 10 August 2004).

The UK Placing and Open Offer Agreement contains warranties given by the Company in favour of Code Securities and Altium Capital, which are usual for a document of this nature. In addition, the Company has agreed to indemnify Code Securities and Altium Capital in relation to certain liabilities it may incur in respect of the UK Placing or any arrangements contemplated by this document. Code Securities and Altium Capital have the right to terminate the UK Placing and Open Offer Agreement in certain circumstances, which include certain material and adverse changes in the condition (financial or otherwise), prospects or earnings of the Group as a whole or on the occurrence of certain force majeure events, all as more particularly set out in the UK Placing and Open Offer Agreement.

The Company has agreed to pay Code Securities (together with any applicable value added):

(i) a documentation and corporate finance advisory fee of £150,000;

(ii) a placing and underwriting commission of 2.5 *per cent* of the aggregate value at the Issue Price of all shares subscribed for or purchased pursuant to the UK Placing.

(iii) a sub-underwriting commission of:

(a) 0.5 *per cent* of the Issue Price of all shares subscribed for or purchased pursuant to the UK Placing;

(b) conditionally upon Admission, in respect of the 30 days following the date of the UK Placing and Open Offer Agreement, 0.75 *per cent* of the aggregate value at the Issue Price of all the New Ordinary Shares subscribed for pursuant to the UK Placing and subject to clawback by Qualifying Shareholders; and

(c) a further 0.125 *per cent* of the aggregate value at the Issue Price of all the New Ordinary Shares subscribed for pursuant to the UK Placing and subject to clawback by Qualifying Shareholders for each period of seven days or part thereof from (and including) the date 30 days after the date of the UK Placing and Open Offer Agreement to (and including) the earlier of (i) the date on which the UK Placing and Open Offer Agreement terminates and (ii) the date on which sub-underwriters are notified of their commitments thereunder.

The commissions and fee referred to above will not be payable by the Company if the UK Placing and Open Offer Agreement is terminated unless such termination arises by virtue of the default of the Company. In the event that the conditions precedent to the UK Placing and Open Offer Agreement are not satisfied then the documentation and corporate finance fee would become payable.

In addition, the Company has agreed to pay, *inter alia*, all costs and expenses of, or in connection with, Admission, the EGM and the Fundraising.

The Directors are mindful of the Competition Commission's recommendations with regard to competitive tendering of sub-underwriting commissions. However, the Directors believe that by virtue of the size of the Fundraising such a process would be unlikely to result in any

significant benefit to the Company and that the commissions being offered to placees under the UK Placing are competitive and, as such, have not sought to offer the sub-underwriting for tender as to commissions payable.

(b) The US Placement Agent Agreement dated 30 June 2004 between (1) ThinkEquity and (2) the Company, pursuant to which the Company has engaged ThinkEquity to perform services as its exclusive placement agent in relation to the US Private Placement. Neither Altium Capital nor Code Securities is party to the US Placement Agent Agreement and neither Altium Capital nor Code Securities has any obligations or liabilities thereunder.

The agreement provides that the US Private Placement must not violate the requirements of the US Securities Act, including any exemption from the registration requirements. It contains customary representations and warranties from the Company in favour of ThinkEquity (for example, in relation to compliance with securities regulations). The agreement is deemed to have become effective as of 24 April 2004 and shall continue through to the earliest of (i) 180 days from such date, (ii) the date of the last closing of a US placement of New Ordinary Shares, or (iii) the termination of the agreement.

In relation to fees, the Company has agreed to pay or cause to be paid at each closing of a sale of New Ordinary Shares by the Company to a US accredited investor a transaction fee in cash equal to 6 *per cent* of the aggregate gross proceeds received by the Company from such closing (the ''Transaction Fee''), subject to reduction in certain circumstances.

If the Company decides not to sell New Ordinary Shares to a US accredited investor who/that has entered into a purchase agreement (other than for certain specified reasons), then in addition to any Transaction Fee payable in respect of such securities sold to such investor, if any, ThinkEquity shall be entitled to be paid an amount (the ''Agency Fee'') equal to 6 *per cent* of the aggregate price of the securities that the Company elected not to sell to such investor.

The agreement contains other provisions relating to the Transaction Fee that are customary for a document of its nature.

The Company has also agreed to pay ThinkEquity a non-refundable retainer of US$50,000 in cash payable immediately upon execution of the agreement. This retainer fee shall be credited against any Transaction Fee or Agency Fee.

In addition, the Company agrees to reimburse ThinkEquity upon request for reasonable expenses paid to third parties, provided however that the liability of the Company to reimburse such expenses shall not exceed US$100,000 without the Company's prior written approval. The expenses related to the indemnity contained in the letter (and referred to below) are not subject to this limitation.

The agreement contains indemnification provisions in favour of ThinkEquity that are customary for a document of this nature.

The agreement is governed by and shall be construed in accordance with the internal laws of the State of New York.

(c) The International Subscription Agreement, being the securities purchase agreement dated 30 June 2004 between (1) the Company and (2) Ronen Kantor Trustees Ltd., as Escrow Agent and (3) certain Israeli Institutional Investors qualifying under Supplement A of section 15A(b)(i) of the Israeli Securities Law, certain US accredited investors and certain of the Directors pursuant to which those persons have agreed, subject to the conditions set out in such agreement, to subscribe for, in aggregate, up to 23,770,711 New Ordinary Shares (of which 2,399,470 New Ordinary Shares have been placed firm, and of which up to 21,371,241 New Ordinary Shares are subject to clawback under the Open Offer) at the Issue Price. The International Subscription Agreement is conditional upon, *inter alia,* Admission having occurred, and the UK Placing and Open Offer Agreement having become unconditional, and not having been terminated in accordance with its terms. Each Israeli Institutional Investor has made representations and given warranties in favour of the Company relating, *inter alia*, to its status as an Israeli Institutional Investor and each US investor has made representations and given warranties in favour of the Company relating, *inter alia*, to its status as a US accredited investor. The International Subscription Agreement contains representations and warranties from the Company in favour of the investors, and from the investors in favour of the

Company, that are usual for a document of this nature, as well as provisions relating to when these are made that are also customary. The International Subscription Agreement also contains termination provisions that are usual for a document of this nature.

(d) The Israeli Placement Agent Agreement dated 30 June 2004 between (1) CLAL (2) Apex and (3) the Company, pursuant to which the Company has engaged the Israeli Placement Agents to perform services as its exclusive placement agent in relation to the Israeli Private Placement. Neither Altium Capital nor Code Securities is party to the Israeli Placement Agent Agreement and neither Altium Capital nor Code Securities has any obligations or liabilities thereunder. The agreement provides that the Fundraising must not violate the requirements of the Israeli Securities Law. The Israeli Placement Agent Agreement is deemed to have become effective as of 30 June 2004 and shall continue through the earliest of (i) 180 days from such date, (ii) the date of the last closing of an Israeli placement of the New Ordinary Shares, or (iii) the termination of the Israeli Placement Agent Agreement. In relation to fees, the Company has agreed to pay or cause to be paid at each closing of a sale of New Ordinary Shares by the Company to an Israeli Institutional Investor a transaction fee (the ''Transaction Fee'') in cash equal to: (i) two and a half per cent (2.5%) of the first US$3 million of the aggregate amounts conditionally subscribed by Israeli Institutional Investors under the International Subscription Agreement (the ''Gross Proceeds'') and (ii) four and a half per cent (4.5%) of the Gross Proceeds in excess of US$3 million or in the event that the aggregate Gross Proceeds exceed US$5.5 million, then the Transaction Fee of the Gross Proceeds shall be equal to four and a half per cent (4.5%); provided that in the case of any sale of New Ordinary Shares in the UK Offering to any non-Israeli affiliate of an Israeli Institutional Investor, the Transaction Fee will be reduced by any underwriting fees and commissions paid by the Company to Code Securities or Altium Capital in respect of such New Ordinary Shares. Furthermore, immediately following Admission, the Company shall pay the Israeli Placement Agents (in accordance with the allocation specified by them to the Company in writing, a corporate fee equal to US$315,000. In addition, the Company agrees to pay to the Israeli Placement Agents upon Admission an additional distribution commission in cash equal to (a) one half per cent (0.5%) of the aggregate value of all New Ordinary Shares subscribed for by Israeli Institutional Investors, and (b) conditional upon Admission, three quarters of a per cent (0.75%) of the aggregate value of all New Ordinary Shares subscribed for by Israeli Institutional Investors, subject to clawback to satisfy valid claims under the Open Offer, and (c) a further 0.125% of the aggregate value of all New Ordinary Shares subscribed for by Israeli Institutional Investors, subject to clawback to satisfy valid claims under the Open Offer, for each period of seven (7) days or part thereof from (and including) the date thirty (30) days after the date of the International Subscription Agreement to (and including) the date on which the International Subscription Agreement terminates. The Company further agrees that if the Company enters into an International Subscription Agreement with an Israeli Institutional Investor, and all the conditions to its obligations to consummate the transactions contemplated by the International Subscription Agreement as set forth therein shall have been satisfied as to such Israeli Institutional Investor, and the Company elects (whether to clawback New Ordinary Shares so that they may be sold in the UK Offering or otherwise) not to sell any of such New Ordinary Shares to such investor pursuant to its signed International Subscription Agreement, then in addition to any Transaction Fee payable in respect of New Ordinary Shares sold to such investor, if any, the Israeli Placement Agents shall be entitled to be paid an amount (the ''Agency Fee'') equal to one half a per cent (0.5%) of the aggregate price of the New Ordinary Shares that the Company elected not to sell to such Israeli Institutional Investor. The Israeli Placement Agent Agreement contains other provisions relating to the Transaction Fee that are customary for a document of its nature. In addition, the Company agrees to reimburse the Israeli Placement Agents upon request for reasonable expenses paid to third parties, provided however that the liability of the Company to reimburse such expenses shall not exceed NIS 5,000 without the Company's prior written approval. The expenses related to the indemnity contained in the letter (and referred to below) are not subject to this limitation. The agreement contains indemnification provisions in favour of the Israeli Placement Agents that are customary for a document of this nature. The agreement is governed by and shall be construed in accordance with the laws of the State of Israel.

(e) A research and licence agreement with Yeda dated 7 April 1993 (the ''Initial Agreement''), under which Yeda has agreed to procure the continuance of certain research which had been commenced pursuant to an agreement dated 1 September 1992 between Yeda and Yeda

Holdings, Inc. Yeda has granted the Company an exclusive worldwide licence to use the Trimera™ patent portfolio and to exclusively use the information derived from the performance of the research for the purposes specified in the agreement in any country where a licensed patent covers a product until the date on which the last licensed patent expires or in any other country 12 years from the first commercial transaction. Under the agreement, any assignment of the licence granted by Yeda requires Yeda's prior written consent. The Initial Agreement has undergone a number of amendments, one of the end results of which is that the Company shall pay to Yeda: a royalty of 3 *per cent* of all net sales received by the Company; 25 *per cent* of amounts received by the Company on net sales of third parties (less certain royalties payable by the Company to third parties), but no more than 3 *per cent* and no less than 1.5 *per cent* of such net sales; and 20 to 40 *per cent* on any receipts to the Company other than the Company's net sales or receipts on net sales made by third parties. Furthermore, such amendments have also changed the termination provisions, entitling Yeda to terminate the agreement if a certain minimum amount of royalties $100,000 or $200,000, depending on the year, are not paid to Yeda annually. In the most recent amendment of the Initial Agreement, in order to facilitate the grant of the licence by the Company to Cubist under the terms of the HepeX™-B Collaboration, Yeda received the right to receive at least 1.5 *per cent* of net sales of HepeX™-B by Cubist sub-licencees, regardless of the amount received by the Company from Cubist in respect of such sales.

11. Litigation

Neither the Company nor its subsidiary is or has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the twelve months preceding the date of this document, a significant effect on the Group's financial position.

12. Taxation

12.1 The following is a summary of the main UK tax consequences which will apply to Shareholders of the Company who are UK resident for tax purposes. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders. If you are in any doubt as to your own tax position, you should seek independent professional advice without delay.

12.1.1 Dividends

Dividends distributed by an Israeli company to non-Israeli residents are subject to a 25 *per cent* tax to be withheld at source (15 *per cent* in the case of dividends distributed from the taxable income attributable to an approved enterprise), unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the UK–Israel Tax Treaty, if such dividends are subject to tax in the UK, the maximum Israeli tax and withholding tax on such dividends paid to a resident of the UK shall not exceed 15 *per cent* of the gross amount of the dividends. The withheld tax is the final tax in Israel on dividends paid to non-residents who do not conduct a business in Israel.

Application of the reduced rate of withholding tax under the UK–Israel Tax Treaty generally requires the receipt of a certificate for the reduction of the withholding tax rate from the Israel Tax Authorities prior to the actual payment of dividend.

A non-resident of Israel, who has dividend income derived from or accrued in Israel, from which tax was withheld at the source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

The Company is not resident for tax purposes in the UK, and will not be obliged to make any withholding on account of UK tax on the payment of any dividends. UK resident individuals are generally subject to UK income tax on all their income, wherever that income arises. This applies to investment income as well as earned income. A UK resident individual will be liable to UK tax on the gross dividend paid by the Company, subject to relief for the Israeli withholding tax, with the provision that the relief cannot exceed the amount of UK tax payable on the dividend. One exception to

the above general rule is that UK resident individual shareholders who are not domiciled in the UK for tax purposes will generally be subject to UK income tax on a dividend paid by the Company only if the dividend is remitted to the UK. The concept of remittance is complex, and those Shareholders who believe they may be UK tax resident but not domiciled in the UK for tax purposes should seek independent professional advice.

The amount of any net dividend received from the Company by a UK resident company together with the amount of Israeli withholding tax deducted at source will be aggregated in determining the amount which is subject to UK corporation tax. Israeli tax deducted at source on dividends paid by the Company to a UK resident company will generally be available as a credit against the UK corporation tax liability arising on the gross dividend. The credit in the UK for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend.

A UK resident company may also seek relief for the underlying tax (borne by the Company and its subsidiaries on the profits out of which the dividend is paid) where the UK company controls directly or indirectly 10 *per cent* or more of the voting power in the Israeli company. Furthermore, the UK-Israel Tax Treaty contains a ''tax sparing'' clause enabling a UK corporation which controls directly or indirectly at least 10 *per cent* or more of the voting power in the Israeli company to seek relief for underlying Israeli tax which has been saved under certain specified provisions of Israeli law.

A UK resident company may choose, as an alternative, to treat any Israeli tax for which credit is available against UK corporation tax as a deduction against UK corporation tax payable. This may be beneficial where, for example, the UK company has insufficient UK taxable income against which the available credit can be set.

12.1.2 Israeli Estate and Gift Taxes

Israel does not currently impose taxes on inheritance or *bona fide* gifts. For transfer of assets by inheritance or gift that would normally be subject to capital gains tax or land appreciation tax, the recipient's tax cost basis and date of purchase are generally deemed to be the same as those for the transferor of the property.

12.1.3 Capital Gains Tax

An individual who is resident or ordinarily resident in the UK for tax purposes will be liable to capital gains tax on any chargeable gain made on a disposal of shares in the Company subject to the application of relevant reliefs and exemptions. For individuals, capital gains tax is charged at the rate equivalent to the applicable rate of income tax were the chargeable gain to be treated as their top slice of income. UK resident companies making a disposal of shares in the Company will be liable to corporation tax on any chargeable gain arising on such disposal.

Israeli law generally imposes a capital gains tax on the sale of securities and any other capital asset. The basic capital gains tax rate applicable to corporations effective until 31 December 2002 had been 36 *per cent*, and the maximum tax rate for individuals was 50 *per cent*. Effective 1 January 2003, the capital gains tax rate imposed upon sale of capital assets acquired after that date was reduced to 25 *per cent*; capital gains realised from assets acquired before that date are subject to a blended tax rate based on the relative periods of time before and after that date that the asset was held.

In addition, if the shares are traded on a recognised stock exchange (including the London Stock Exchange), gains on the sale of shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax provided such ordinary shares were purchased by such non-Israeli tax resident after such shares were initially listed for trading. Notwithstanding the foregoing, dealers in securities in Israel are taxed at regular tax rates applicable to business income.

The UK–Israel Tax Treaty exempts UK residents from Israeli capital gains tax in connection with such sale provided such gain are subject to tax in the UK. Certain other tax treaties to which Israel is a party also grant exemptions from Israeli capital gains taxes.

Any subscription by a UK resident Shareholder in the Company for New Ordinary Shares under the terms of the Open Offer, up to that Shareholder's individual entitlement, should be treated as a reorganisation of the Shareholder's existing holding of Ordinary Shares for UK capital gains tax purposes. Any subscription of New Ordinary Shares above that entitlement should be treated as a new acquisition for those purposes.

12.2 Stamp Duty

The Company is obligated under the Israeli Stamp Duty Act 1961 to pay one *per cent* of the proceeds of the Fundraising as stamp duty within 30 days from the issuance of the Ordinary Shares.

UK stamp duty is chargeable (at 0.5 *per cent* of the purchase price) on transfers of shares in the Company if a transfer document is executed in the UK or relates to "any matter or thing done or to be done" in the UK. UK stamp duty reserve tax (at 0.5 *per cent* of the purchase price) is chargeable in respect of an agreement to transfer shares in the Company if they are registered in a register kept in the UK by or on behalf of the Company. To the extent that payment of stamp duty on a transfer executed pursuant to such an agreement is made, it will generally cancel this charge to stamp duty reserve tax. However, it should be noted that the Company has no present intention of establishing a register within the UK for the shares in the Company.

The above comments are intended as a general guide to the current position. Any person who is in any doubt as to his taxation position, and who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom should consult his professional advisers.

13. Significant Change

Pursuant to the HepeX^{TM}-B Collaboration with Cubist entered into on 2 June 2004, Cubist will be responsible for the future development and financing of HepeX^{TM}-B required for registration of the product. Under the terms of the agreement, XTLbio received an up front non-refundable payment of $1 million, and expects to receive a further $2 million by the end of 2005. An additional $3 million will be received subject to the achievement of certain resolutions by the product. XTLbio will also receive up to 17 *per cent* royalties on sales of HepeX^{TM}-B made by Cubist. Details of the agreement are set out in "Licensing and Collaborative Effects" in Part III of this document. Save as set out above, there has been no significant change in the financial or trading position of the Group since 31 December 2003, being the end of the last financial period for which audited financial statements of the Group have been published.

14. Market Price

The following table shows the closing middle market price for an Ordinary Share as derived from the Daily Official List for (a) the first dealing day in each of the six months prior to the date of this document and (b) the latest practicable dealing day before the publication of this document:

	Date	*Market Price (pence)*
(a)	2 January 2004	16.75
	2 February 2004	23.00
	1 March 2004	26.75
	1 April 2004	28.03
	4 May 2004	31.25
	1 June 2004	20.50
(b)	30 June 2004	19.25

15. Miscellaneous

15.1 The total costs and expenses relating to the Fundraising payable by the Company (including underwriting commissions which amount to £214,000) are estimated to amount to £1,346,000 (excluding VAT). The estimated net proceeds accruing to the Company from the Fundraising amount to approximately £8.5 million.

15.2 The auditors of the Company, Kesselman & Kesselman, chartered accountants and registered auditors (a member of PricewaterhouseCoopers International Limited), of Trade Tower, 25 Hamered Street, Tel Aviv 68125, Israel, have audited the accounts of the Company, for the

three years ended 31 December 2003 in accordance with auditing standards generally accepted in Israel and in the United States. The auditors' reports on all of the annual accounts for the three years ended 31 December 2003 were unqualified.

The audit report with respect to the consolidated financial statements of the Company for the year ended 31 December 2003 contained the following emphasis of matter:

''As discussed in note 1a to the financial statements, continuation of the Company's current operations after utilising its current cash reserves during 2005, is dependent upon the generation of additional financial resources, either through agreements for the commercialisation of its product portfolio or through external financing.''

15.3 The UK Placing has been fully underwritten by Altium Capital. The Issue Price is payable in full in cash on acceptance.

15.4 Code Securities and Altium Capital have each given and not withdrawn their written consent to the inclusion herein of their names in the form and context in which they are respectively included.

15.5 The Registrars of the Company are Computershare Investor Services (Channel Islands) Limited, PO Box 83 Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, Channel Islands. The Receiving Agent for the Open Offer is Computershare Investor Services PLC.

16. Documents Available for Inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Jones Day 21 Tudor Street, London EC4Y 0DJ, United Kingdom and at the registered office of the Company from the date of this document until 30 July 2004:

(a) the Articles of Association of the Company;

(b) the published audited consolidated accounts of the Company for the three years ended 31 December 2001, 2002 and 2003;

(c) the employment and consulting agreements referred to in paragraphs 5.6 to 5.11 of this Part VI;

(d) the material contracts referred to in paragraph 10 of this Part VI; and

(e) the letters of consent referred to in paragraphs 15.4 of this Part VI.

1 July 2004

GLOSSARY OF SCIENTIFIC AND TECHNICAL TERMS

active hepatitis B	a state of hepatitis caused by hepatitis B virus in which the virus is in replicating form
adefovir	a drug used to treat vital infections
affinity	a measure of the binding strength between an antigen and an antibody
AIDS	acquired immune deficiency syndrome
antibiotic	a drug used to treat bacterial infections
antibody (''Ab'')	a molecule produced by animals in response to an antigen that binds specifically with the antigen that induced its production
antigen	a molecule that induces the formation of antibody
assay	a quantitative or qualitative process used to measure or detect a particular substance
bacterial targets	components of bacteria which may serve as targets for drug development, for example, cell surface molecules and enzymes
cell immortalization	see ''immortalization''
chimera	an animal in which cells from genetically different species co-exist
DNA	(deoxyribonucleic acid) the molecule that encodes the genetic information. DNA is a double-stranded molecule held together by weak bonds between base pairs of nucleotides to form a double helix
drug candidate	a substance in preliminary testing which may be used in the treatment of disease following successful testing
EMEA	the European Medicines Agency
endogenous	originating within the organism
envelope protein	protein surrounding the nucleic acid of a virus
enzyme	a protein that acts as a catalyst to mediate and speed a specific chemical reaction
epitope	the portion of an antigen that combines with an antibody
escape mutant	a virus that has developed resistance to a certain drug due to a mutation in its genetic material
ex-vivo	biological phenomena that are made to occur in a laboratory within a tissue derived from an organism
FDA	the Food and Drug Administration, an agency within the US Public Health Service, which is a part of the Department of Health and Human Services
genome	the complete set of genes constituting the entire genetic information of an organism
genomic	of or pertaining to the genome
genotype	the internally coded, inheritable genetic information carried by an organism
gram-negative bacteria	a type of harmful bacteria with a particular type of cell wall which can be identified by gram staining
HBIg	hepatitis B immunoglobulin
HCIg	hepatitis C immunoglobulin

HIV	human immune-deficiency virus
HSV	herpes simplex virus
hMAb excess	an FDA-stipulated pharmacological target for achievement of hepatitis treatment
human monoclonal antibody (“hMAb”)	antibody directed to a single epitope on a target molecule that is derived from a single clone, and that is derived from a human lymphocyte
hybridomas	cell lines created *in vitro* by fusing two different cell types, usually lymphocytes, one of which is a tumor cell
hyperimmune	sera or immunoglobulin preparation containing a high titer of antibodies directed against a specific antigen
immortalization	introduction of genes into a cell causing it to divide by preventing aging and/or cell death
immuno-compromised	a state in which capability of the immune system has been reduced by drugs, radiation or disease
immunogen	any substance which can elicit the formation of specific antibodies.
immunoglobulin	an antibody. A protein produced by plasma cells and lymphocytes. Immunoglobulins are an essential part of the body’s immune system which attach to foreign substances, such as bacteria, and assist in destroying them
immunotherapy	treatment of or prophylaxis against disease by attempting to produce active or passive immunity
in vitro	biological phenomena that are made to occur in a laboratory in an artificial environment
in vivo	biological phenomena that occur or are observed occurring within the bodies of living organisms
Investigational New Drug (“IND”)	an application or submission required to be made to the FDA
knockout mice	mice that have been genetically modified by eliminating one or more of their genes
lamivudine	a drug used to treat viral infections including HIV and hepatitis
lead(s)	compounds that may be used in the treatment of disease, subject to the outcome of clinical testing
monoclonal antibody (“MAb”)	antibody directed to a single epitope on the target molecule
monotherapy	a therapeutic regimen consisting of a single drug
murine	of, or pertaining to, mice
nosocomial	originating or taking place in a hospital, acquired in a hospital, especially in reference to an infection
orphan drug (status)	a designation of the FDA or other regulatory authorities for certain drugs for rare diseases or conditions which typically provides for some period of exclusivity
pathogen	any disease producing organism
pegylated	polyethylene glycol (PEG)-modified drug. A drug is attached to PEG for better evasion of the body’s rejection and clearance mechanisms
peptide	a molecule composed of amino acids

phase 1 clinical trial	the assessment of the safety of a biologically active substance in volunteers
phase 2 clinical trial	the assessment in patients of a drug to determine dose range and preliminary efficacy
phase 3 clinical trials	definitive studies to determine efficacy and safety of a drug prior to marketing approval
polymerase	an enzyme that is involved with synthesis of RNA and DNA
polymerase inhibitor	a molecule that inhibits the action of a polymerase
prophylactic	a medication or treatment given to prevent development of disease
radiation chimera	a chimeric animal produced by radiation followed by transplantation of genetically different cells
RNA	short for ribonucleic acid. A chemical (specifically, a nucleic acid) similar to DNA but containing ribose rather than deoxyribose
serum (sera)	blood from which the fibrin and suspended material (such as cells) have been removed
sero-conversion	the production of antibodies in response to an antigen
spontaneous mutant	animal alteration in the genetic information of an animal that occurs spontaneously
staphylococcus epidermidis	a bacterium capable of infecting humans and causing severe illness
therapeutic	a substance used in the treatment of disease
vaccine	any preparation intended for the purpose of active immunological prophylaxis (e.g. preparations of killed or attenuated microbes or microbial, fungal, plant, protozoan or metazoan derivatives or products)
viral load	the amount (titre) of viral particles in the blood of a host
viremia	the presence of a virus in the blood of a host

XTL Biopharmaceuticals Ltd.

(incorporated and registered in the State of Israel under the Companies Ordinance [New Version] – 1983 with registered number 52-003947-0)

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at the offices of Jones Day, 21 Tudor Street, London EC4Y 0DJ at 10.00 am on 2 August 2004 for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTION

1. THAT, for the purposes of Article 6.3 of the Articles of Association of the Company (the ''Articles''), the directors of the Company be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the UK Companies Act 1985 (the ''Act'')) up to an aggregate nominal amount of NIS 1,120,195 in substitution for all existing such authorities previously conferred on the directors of the Company which are hereby revoked but without prejudice to any allotment, offer or agreement already made pursuant thereto or in reliance thereon, provided that this authority shall expire 15 months after the passing of this Resolution or, if earlier, the conclusion of the next annual general meeting of the Company but may be previously revoked or varied from time to time by the Company in general meeting, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance to any such offer or agreement as if the authority conferred by this Resolution had not expired.

SPECIAL RESOLUTION

2. THAT, subject to and conditional upon the UK Placing and Open Offer Agreement (as defined in the prospectus dated 1 July 2004 of which this notice of EGM forms part (the ''Prospectus'')) becoming unconditional (save only as regards the passing of this Resolution and to Admission (each term as defined in the Prospectus)) and not being terminated in accordance with its terms on or before 10 August 2004 (the ''Condition Precedent''), the directors of the Company be and are hereby empowered, pursuant to Section 6.4 of the Articles and the general authority conferred by Resolution 1, to allot equity securities (as defined in section 94 of the Act) for cash up to an aggregate nominal amount of NIS 1,120,195 in connection with the Fundraising (as such term is defined in the Prospectus).

ORDINARY RESOLUTIONS

3. THAT, subject to the occurrence of the Condition Precedent, the grant to Peter Stalker III, a director of the Company, of 315,270 Ordinary Shares of the Company in consideration for the payment of the Issue Price (as defined in the Prospectus) per each such Ordinary Share is hereby approved.

4. THAT, subject to the occurrence of the Condition Precedent, the grant to Elkan Gamzu, a director of the Company, of 78,817 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

5. THAT, subject to the occurrence of the Condition Precedent, the grant to Patricia Smith, a director of the Company, of 15,763 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

6. THAT, subject to the occurrence of the Condition Precedent, the grant to Martin Becker, a director of the Company, of 15,763 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

7. THAT, subject to the occurrence of the Condition Precedent, the grant to Geoffrey N. Vernon, a director of the Company, of 30,000 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

REGISTERED OFFICE:

Kiryat Weizmann Science Park
Building 3, Hasapir Street
PO Box 370
Rehovot 76100
Israel

By order of the Board

R.Kantor

Secretary

Notes:

1. A shareholder who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy for use at the meeting, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands (or, by hand only, at Computershare Investor Services PLC, 7th Floor Jupiter House, Triton Court, 14 Finsbury Square, London EC2A 1BR, at least 48 hours before the time for holding the meeting.
3. Completion and return of a form of proxy will not preclude a shareholder from attending and voting at the meeting in person if he subsequently decides to do so.

XTLbio
Conquering hepatitis C in our time

Tel Aviv Stock Exchange

Listing Documents

Index

21. XTL Biopharmaceuticals Ltd Joins FTSE™ techMARK 100 Index – 4 March 2005
22. XTL Biopharmaceuticals Ltd Board Change – 15 March 2005
23. XTL Biopharmaceuticals Ltd Provides Update on Clinical Programs and Planned Operations – 31 March 2005
24. XTLbio Files Registration Statement for Level 2 ADR Listing on NASDAQ – 13 May 2005

PART I

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 or, if you are not a recipient in the United Kingdom, an appropriately qualified financial adviser.

XTL Biopharmaceuticals Ltd.

(incorporated and registered in the State of Israel under the Companies Ordinance [New Version] – 1983 with registered number 52-003947-0)

Circular to shareholders in respect of Extraordinary General Meeting

---

Code Securities Limited is acting exclusively as financial adviser and broker for XTL Biopharmaceuticals Ltd. in relation to the Open Offer and the UK Placing. Code Securities Limited is not acting for, and will not be responsible to, any person other than XTL Biopharmaceuticals Ltd. for providing the protections afforded to clients of Code Securities Limited or for advising any other person on the contents of this document or any transaction or arrangement referred to herein.

Altium Capital Limited, which is authorised and regulated in the United Kingdom by The Financial Services Authority, is acting exclusively as underwriter of the UK Placing and sponsor for XTL Biopharmaceuticals Ltd. in relation to the Open Offer and the UK Placing and for no one else and will not be responsible to anyone other than XTL Biopharmaceuticals Ltd. for providing the protections afforded to clients of Altium Capital Limited or for providing advice in relation to the Open Offer and the UK Placing. Altium Capital Limited, in its capacity as sponsor, has appointed Code Securities Limited as its agent in connection with the listing of New Ordinary Shares. Code Securities is an appointed representative of Altium Capital Limited.

This document does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or otherwise acquire, any New Ordinary Shares that are the subject of the Open Offer or the UK Placing. The parts of this document that describe the Open Offer or the UK Placing are included herein solely for information purposes.

Notice of an Extraordinary General Meeting of XTL Biopharmaceuticals Ltd., to be held at Jones Day, 21 Tudor Street, London EC4Y 0DJ at 10.00 am on 2 August 2004 is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. The Form of Proxy should be completed and returned to the Company's registrars, Computershare Investor Services (Channel Islands) Limited, in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received no later than 10.00 am on 28 July 2004.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2004
Latest time and date for receipt of Forms of Instruction for holders of Depository Interests	10.00 am on 28 July
Latest time and date for receipt of Forms of Proxy	10.00 am on 31 July
Extraordinary General Meeting	10.00 am on 2 August

For information concerning voting at the EGM contact the proxy solicitor and information agent, Georgeson Shareholder Communications Inc., a Computershare plc company on +44 870 703 6357.

The dates set out in the timetable of events above and mentioned throughout this document and in the Form of Proxy and Form of Instruction may be adjusted by XTLbio, in which event details of the new dates will be notified to the UK Listing Authority and the London Stock Exchange and, where appropriate, Shareholders.

Exchange Rate Conversion

Unless stated otherwise, the following exchange rates, being the rates prevailing on 30 June 2004, being the latest practicable date prior to publication of this document, have been used in this document:

US$ 1.81: £1

NIS 8.16: £1

DIRECTORS, SECRETARY AND ADVISERS

Directors
Geoffrey Nicholas Vernon (Chairman)
Martin Becker (Chief Executive Officer)
Jonathan Burgin (Chief Financial Officer)
Shlomo Dagan (Chief Scientific Officer)
Glenn Michael Kazo (Chief Business Officer)
Elkan Raphael Gamzu (Non-executive Director)
Ehud Geller (Non-executive Director)
Rustom Kaikhushroo Kathoke (Non-executive Director)
Patricia Anne Smith (Non-executive Director)
Peter Stalker III (Non-executive Director)

Company Secretary
Ronen Kantor

Address and Registered Office
Kiryat Weizmann Science Park
Building 3, 3 Hasapir Street
PO Box 370
Rehovot 76100
Israel

Financial adviser, stockbroker and agent to sponsor
Code Securities Limited
30 St James's Square
London SW1Y 4AL
United Kingdom

Sponsor and underwriter
Altium Capital Limited
30 St James's Square
London SW1Y 4AL
United Kingdom

Legal advisers to the Company in the UK
Jones Day
21 Tudor Street
London EC4Y 0DJ
United Kingdom

Legal advisers to the Company in Israel
Kantor & Co
Shap House
3 Hayetzira Street
Ramat Gan 52521
Israel

Legal advisers to the Company in US
Heller Ehrman White & McAuliffe LLP
4350 La Jolla Village Drive
Suite 700
San Diego
CA 92037
USA

Legal advisers to Code Securities and Altium Capital
Mayer, Brown, Rowe & Maw LLP
11 Pilgrim Street
London EC4V 6RW
United Kingdom

Auditors and reporting accountants
Kesselman & Kesselman
(a member of PricewaterhouseCoopers International Limited)
Trade Tower
25 Hamered Street
Tel Aviv 68125
Israel

Registrars
Computershare Investor Services (Channel Islands) Limited
PO Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW
Channel Islands

Receiving Agent
Computershare Investor Services PLC
PO Box 859
The Pavilions
Bridgwater Road
Bristol BS99 1XZ
United Kingdom

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

''BST''	British Summer Time
''Code Securities''	Code Securities Limited
''CREST''	the relevant system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations
''CRESTCo''	CRESTCo Limited, the operator of CREST
''Cubist''	Cubist Pharmaceuticals, Inc.
''Depository Interests''	a receipt recognising an underlying interest in Ordinary Shares as constituted by the deed poll of 9 March 2001
''Directors'' or ''Board''	the board of directors of XTLbio at the date of this document whose names are set out in paragraph 5.1 of Part II of this document
''Directors' Israeli Subscriptions''	the subscriptions of certain Directors more particularly set out in part I of this document
''Directors' Subscriptions''	together, the Directors' Israeli Subscriptions and the Directors' US Subscriptions
''Directors' US Subscriptions''	the subscriptions of certain Directors more particularly set out in part I of this document
''Extraordinary General Meeting'' or ''EGM''	the extraordinary general meeting of XTLbio convened for 10.00 am on 2 August 2004 (or any adjournment of it), notice of which is set out at the end of this document
''Firm Placed Shares''	the 6,101,811 New Ordinary Shares in respect of which irrevocable undertakings not to apply under the Open Offer have been received by Code Securities and the Company
''Form of Instruction''	the form pursuant to which Depository Interest holders can instruct the Registrars to vote at the EGM in respect of their beneficial holdings of Ordinary Shares in the Company
''Form of Proxy''	the form of proxy for use at the EGM being sent to Qualifying Shareholders with this document
''Fundraising''	collectively, the Open Offer incorporating the UK Placing in conjunction with the US Private Placement and the Israeli Private Placement
''HepeX^{TM}-B Collaboration''	the agreement dated 2 June 2004 between the Company and Cubist, as more particularly described in Part II of this document
''Israeli Placement Agents''	Apex Underwriting Ltd and Clal Finance Underwriting Limited
''Israeli Private Placement''	the conditional private placement in Israel of 18,327,624 New Ordinary Shares at the Issue Price
''Issue Price''	the price of 17.5p per New Ordinary Share payable under the Open Offer, the UK Placing, the US Private Placement and the Israeli Private Placement
''New Ordinary Shares''	56,009,732 new Ordinary Shares proposed to be issued pursuant to the Fundraising
''Open Offer''	the conditional invitation by Code Securities, on behalf of the Company, to Qualifying Shareholders to apply for New Ordinary Shares at the Issue Price
''Ordinance''	Israeli Companies Ordinance [New Version] – 1983
''Ordinary Shares''	ordinary shares of NIS 0.02 each in the share capital of XTLbio

''Overseas Shareholders''	Shareholders who are resident in, or who are citizens of, or who have registered addresses in, territories other than the United Kingdom (including, without limitation, Shareholders who are US persons)
''Qualifying Shareholders''	Shareholders (other than US persons and certain other Overseas Shareholders) on the register of members of the Company at the Record Date
''Record Date''	close of business on 25 June 2004
''Registrars''	Computershare Investor Services (Channel Islands) Limited
''Regulations''	the Uncertificated Securities Regulations 2001 (SI 2001/3755) including any modifications, re-enactment or substitute regulations for the time being in force
''Resolutions''	the resolutions proposed in the notice of EGM set out at the end of this document
''Share Option Schemes''	the Company's share option schemes, as more particularly described in paragraph 6 of Part III of this document
''Shareholders''	holders of Ordinary Shares
''UK Placing''	the conditional placing by Code Securities on behalf of the Company of 28,536,680 New Ordinary Shares at the Issue Price, subject to clawback to satisfy valid acceptances under the Open Offer, and the conditional placing of 3,702,341 Firm Placed Shares at the Issue Price
''uncertificated'' or ''uncertificated form''	recorded on the relevant register or other record of the share or other security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST
''US Private Placement''	the conditional private placement in the United States pursuant to an exemption from the requirements of the US Securities Act 1933, as amended of 5,443,087 New Ordinary Shares at the Issue Price
''XTLbio'' or the ''Company''	XTL Biopharmaceuticals Ltd.

PART I

XTL Biopharmaceuticals Ltd.

(incorporated and registered in the State of Israel under the Companies Ordinance [New Version] – 1983 with registered number 52-003947-0)

Directors:

Geoffrey Nicholas Vernon, PhD, MBA *(Chairman)*
Martin Becker, PhD *(Chief Executive Officer)*
Jonathan Burgin, CPA, MBA *(Chief Financial Officer)*
Shlomo Dagan, PhD *(Chief Scientific Officer)*
Glenn Michael Kazo, MSc *(Chief Business Officer)*
Elkan Raphael Gamzu, PhD *(Non-executive Director)*
Ehud Geller, PhD, MBA *(Non-executive Director)*
Rustom Kaikhushroo Kathoke, FCA *(Non-executive Director)*
Patricia Anne Smith, MD *(Non-executive Director)*
Peter Stalker, III *(Non-executive Director)*

Registered Office:

Kiryat Weizmann Science Park
Building 3, 3 Hasapir Street
PO Box 370
Rehovot 76100
Israel

1 July 2004

Dear Shareholder,

The purpose of this document is to explain why your Board considers it to be in the best interests of XTLbio and its Shareholders as a whole and to recommend that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, to be held on 2 August 2004, notice of which is set out at the end of this document.

Background

XTL Biopharmaceuticals Ltd. is engaged in the development of pharmaceutical products for the treatment of infectious diseases, particularly the prevention and treatment of hepatitis B and C.

The Company currently has two products in clinical development, HepeX^{TM}-B and HepeX^{TM}-C. HepeX^{TM}-B is currently in a phase 2b trial and HepeX^{TM}-C is in a phase 2a trial. Both products are fully human monoclonal antibody (hMAb) products and are being developed to prevent hepatitis B and hepatitis C infection of transplanted livers in hepatitis patients. The Company has licenced HepeX^{TM}-B to Cubist and plans to partner HepeX^{TM}-C prior to commencing phase 3 trials. The Company also has a synthetic small molecules development programme in preclinical development, targeted at treating chronic hepatitis C (HCV-SM).

The Company's competitive advantage lies in its proprietary drug validation tools, in particular those it has developed for viral hepatitis B (HBV) and viral hepatitis C (HCV). These tools enable the Company to accelerate its internal product development programmes, to reduce the risk in its development pipeline and to secure rights from third parties to new drug candidates. This technology has enabled the Company to develop HepeX^{TM}-C, HepeX^{TM}-B and HCV-SM to the stage they are today.

Strategy

XTLbio's strategy is to develop treatments for the prevention of hepatitis re-infection in liver transplants as well as chronic hepatitis infections, which together represent a worldwide market estimated to be over $3 billion per annum. The Company plans to achieve this by:

- leveraging its technology to secure rights to new drug candidates and identify proprietary new drug candidates;
- developing drug candidates through clinical proof of principle (usually phase 2); and
- commercialising clinical development products through co-development or licensing.

Employing the above strategy, XTLbio has:

- identified and developed two new drug candidates to phase 2, HepeX^{TM}-B and HepeX^{TM}-C;

- secured rights to HCV-specific small molecule drug candidates including lead candidates in preclinical development;
- entered into a licensing collaboration with Cubist for the commercialisation of HepeX™-B;
- acquired exclusive rights to a broad panel of HCV antibodies; and
- secured rights to bacterial targets for use in developing new monoclonal antibody drug candidates.

This strategy has enabled XTLbio to optimise the use of its financial and human resources by:

- retaining a stake in the commercialisation of products for the Company; and
- increasing the number of products XTLbio can develop in its pipeline, thus diversifying the risk of its product portfolio.

Current trading and prospects

The Company's audited financial statements for the 12 months ended 31 December 2003 (the ''Financial Statements'') stated that the Company's liquid cash reserves were $22.4 million. Note 1a to the Financial Statements included the following statement ''continuation of the Company's current operations after utilizing its current cash reserves during 2005, is dependent upon the generation of additional financial resources, either through agreements for the commercialization of its product portfolio or through external financing''. The Directors believe that the HepeX™-B Collaboration and the Fundraising provide such additional financial resources.

Since the beginning of the current financial year, the Company has announced:

- the establishment of a commercial agreement with Cubist for the licensing and development of HepeX™-B (the ''HepeX™-B Collaboration''), further details of which are provided in Part II;
- the grant of orphan drug status from the EMEA for HepeX™-B; and
- grant of an hMAb patent for hepatitis C.

The Company also announced the partial clinical hold of one of the dosing arms in its HepeX™-C phase 2a clinical trial. This followed a patient failing to survive a liver transplant operation. Following an examination of the final *post mortem* report and reports from external consultants, the Directors believe that the causal factors of the incident are unlikely to be related to the administration of HepeX™-C. The *post mortem* report and other information has been supplied by the Company to the FDA and discussions are continuing regarding the potential resumption of the highest dosing arm of the phase 2a HepeX™-C clinical trial. The Company is in advanced negotiations with a third party regarding the co-development of HepeX™-C, whereby the Company would share development costs.

The Company's financial and trading prospects are in line with the Directors' expectations, and the Directors have no reason to believe that this will not continue for at least the rest of the current financial year.

Reasons for the Fundraising and use of proceeds

The proceeds from the Fundraising, in addition to the Group's current cash resouces, will be used by the Company to progress its clinical pipeline to commercialisation, in particular HepeX™-C and to initiate clinical development of HCV-SM. The Directors believe that the combined effect of the Fundraising and the HepeX™-B Collaboration position the Company well for advancing negotiations surrounding the licensing/co-development of HepeX™-C. The Directors believe, based on their current expectations and strategy, that the following expenditure will be required to fully commercialise the Company's lead progammes:

- **HepeX™-C.** Approximately £22 million is currently expected to be required to fund this product through clinical trials, registration and commercial launch. Currently, the product is in phase 2a trials. As there is no current treatment for liver transplant infection in hepatitis C, the Directors believe that, compared with chronic hepatitis C, where there is an established treatment, the regulatory hurdles may be lower in terms of demonstrating effectiveness of the drug, and hence the trials may involve smaller numbers of patients resulting in lower trial costs. As noted above, the Directors are in advanced negotiations with a third party regarding the co-development of HepeX™-C whereby the Company would share the development costs with such a third party; and

- **HCV-SM (formerly HepeX^{TM}-C-SM**). Approximately £6 million is expected to be required to fund the current preclinical programme to select an appropriate drug candidate and complete phase 2 clinical trials. Prior to the commencement of any further clinical trials, the Directors intend to seek a partner to develop the product to commercialisation.

Under the HepeX^{TM}-B Collaboration, Cubist will be responsible for the future development and financing of HepeX^{TM}-B.

Extraordinary General Meeting

Your approval is being sought to confer the necessary authorities on the Directors to implement the Fundraising. Accordingly, there is set out at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held at 10.00 am on 2 August 2004 at the offices of Jones Day, 21 Tudor Street, London EC4Y 0DJ. At this meeting, resolutions will be proposed to:

- confer on the Directors authority under the Articles to allot relevant securities in connection with the Fundraising (covering the New Ordinary Shares) up to an aggregate nominal value of £137,279, representing 50 *per cent* of the total issued ordinary share capital as at 30 June 2004. If approved at the EGM, this authority would expire on the earlier of 15 months after the passing of this resolution and the conclusion of the next annual general meeting of the Company. Other than in connection with the Fundraising and the Share Option Schemes, the Directors have no present intention of issuing any of the authorised but unissued share capital of the Company;
- confer on the directors the ability under the Articles to allot (on a non pre-emptive basis) relevant securities for cash up to an aggregate nominal value of NIS1,120,195 in connection with the Fundraising; and
- confer authority on the Company to issue New Ordinary Shares to those Directors who wish to subscribe for New Ordinary Shares pursuant to the US Private Placement and pursuant to the Israeli Private Placement of up to an aggregate of 455,613 New Ordinary Shares. Under Israeli Securities Law, any issuance of shares to a director requires the approval of the shareholders.

The first, third, fourth, fifth, sixth and seventh resolutions set out in the notice of EGM will be proposed as ordinary resolutions and the second resolution will be proposed as a special resolution.

Action to be taken

You will find enclosed with this document a Form of Proxy (or Form of Instruction in the case of holders of Depositary Interests) for use at the Extraordinary General Meeting. Whether or not you propose to attend the Extraordinary General Meeting in person, you are requested to complete and return the Form of Proxy (or Form of Instruction in the case of holders of Depositary Interests), in accordance with the instructions printed thereon as soon as possible and, in any event, so as to be received no later than 10.00 am on 28 July 2004 if for the Form of Instruction, or 10.00 am on 31 July 2004 for the Form of Proxy. Completion and return of the Form of Instruction or Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish.

For further information concerning voting at the EGM contact the proxy solicitor and information agent, Georgeson Shareholder Communications, Inc., a Computershare plc company on +44 870 703 6357.

Further information

Your attention is drawn to the further information set out in Part III of this document.

Directors' entitlements

Certain Directors have irrevocably undertaken not to take up their entitlements as Qualifying Shareholders under the Open Offer. Certain of the Directors have conditionally agreed to subscribe for up to 455,613 New Ordinary Shares in aggregate under the International Subscription Agreement.

Martin Becker, Patricia Smith and Geoffrey Vernon have conditionally agreed to subscribe for 15,763 New Ordinary Shares, 15,763 New Ordinary shares and 30,000 New Ordinary Shares

respectively under the Israeli Private Placement (the ''Directors' Israeli Subscriptions''). In addition, Elkan Gamzu and Peter Stalker III have conditionally agreed to subscribe for 78,817 New Ordinary Shares and 315,270 New Ordinary Shares respectively under the US Private Placement (the ''Directors' US Subscriptions,'' together with the Directors' Israeli Subscriptions, the ''Directors' Subscriptions'').

The Directors' Subscriptions will be subject to clawback by Qualifying Shareholders under the Open Offer and conditional upon your approval at the EGM (the notice of which is set out at the end of this document).

Recommendation

Your Directors, having been so advised by Code Securities in relation to the Open Offer and the UK Placing, believe that the Fundraising, including the Directors' Subscriptions, is in the best interests of XTLbio and its Shareholders as a whole and, accordingly, unanimously recommend you to vote in favour of the Resolutions set out in the notice of Extraordinary General Meeting at the end of this document as they and persons connected with them intend to do in respect of their own beneficial holdings of 1,335,360 Ordinary Shares, representing approximately 1.2 *per cent* of the current issued ordinary share capital of the Company. In providing advice to the Directors, Code Securities has taken into account the Directors' commercial assessment of the Fundraising.

Yours faithfully,

Geoffrey Vernon,
Chairman of the Board

PART II

INFORMATION ON THE GROUP

INTRODUCTION

XTL Biopharmaceuticals Ltd. is engaged in the development of pharmaceutical products for the treatment of infectious diseases, particularly the prevention and treatment of hepatitis B and C.

The Company currently has two products in clinical development, HepeX^{TM}-B and HepeX^{TM}-C. HepeX^{TM}-B is currently in a phase 2b trial and HepeX^{TM}-C is in a phase 2a trial. Both products are fully human monoclonal antibody (hMAb) products and are being developed to prevent hepatitis B and hepatitis C re-infection of transplanted livers in hepatitis patients. The Company has licensed HepeX^{TM}-B to Cubist and plans to partner HepeX^{TM}-C prior to commencing phase 3 trials. The Company also has a synthetic small molecules development programme in preclinical development, targeted at treating chronic hepatitis C (HCV-SM).

The Company's competitive advantage lies in its proprietary drug validation tools, in particular those it has developed for viral hepatitis B (HBV) and viral hepatitis C (HCV). These tools enable the Company to accelerate its internal product development programmes, to reduce the risk in its development pipeline and to secure rights from third parties to new drug candidates. These tools have already enabled XTLbio to develop HepeX-B and HepeX-C to their current stages.

XTLbio's continuing strategy is to develop treatments for the prevention of hepatitis re-infection in liver transplants as well as chronic hepatitis infections, which together represent a worldwide market estimated to be worth over $3 billion per annum. The Company plans to achieve this by:

- leveraging its technology to secure rights to new drug candidates and identify proprietary new drug candidates;
- developing drug candidates through clinical proof of principle (usually phase 2); and
- commercialising clinical development products through co-development or licensing.

Employing the above strategy, XTLbio has:

- identified and developed two new drug candidates to phase 2, HepeX^{TM}-B and HepeX^{TM}-C;
- secured rights to HCV-specific small molecule drug candidates including lead candidates in preclinical development;
- entered into a licensing collaboration with a US biotechnology company for the commercialisation of HepeX^{TM}-B;
- secured rights to bacterial targets for use in developing new monoclonal antibody drug candidates; and
- acquired exclusive rights to a broad panel of HCV antibodies.

This strategy has enabled XTLbio to optimise the use of its financial and human resources by:

- retaining a stake in the commercialisation of products for the Company; and
- increasing the number of products XTLbio can develop in its pipeline, thus diversifying the risk of its product portfolio.

XTLbio has recently entered into a licensing agreement for HepeX^{TM}-B with Cubist, a Nasdaq-listed company with a launched anti-infective product. XTLbio is currently in discussions to partner HepeX^{TM}-C, its second clinical candidate, for use in the prevention of re-infection in HCV-infected liver transplant patients. The Directors expect the Company to file an IND with the FDA by the end of 2004 for the Company's lead small molecule drug candidate for the treatment of chronic hepatitis C. Following this submission, phase 1 trials are expected to commence in the first half of 2005.

XTLbio was incorporated in Israel in March 1993 and commenced operations in November 1993. The Company was established to commercialise technology developed at the Weizmann Institute. The technology has been exclusively licensed to XTLbio by Yeda. XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange's market for listed securities under the symbol ''XTL''.

DRUG CANDIDATES AND DEVELOPMENT PROGRAMMES

XTLbio Product Development Pipeline

The Company currently has two products in clinical trials, a further two products at the preclinical stage of development and one research programme, each of which are shown in the table below.

XTLbio development pipeline

Product	*Indication*	*Active Ingredient*	*Status*	*Regulatory*
HepeX™-B	HBV infection associated with liver transplants	Combination of two hMAbs	Phase 2b ongoing in liver transplant patients: 45 patients, 3 dosing arms	Under US IND. Orphan drug status granted in EU and US
HepeX™-C	HCV infection associated with liver transplant	Single hMAb	Phase 2a ongoing in liver transplant patients: 24 patients, 6 dosing arms	Under US IND
HepeX™-C supplementary antibody	HCV infection associated with liver transplant	hMAb	Preclinical; to be added to HepeX™-C	Preclinical. IND to be filed by end of 2004.
HCV-SM	Chronic hepatitis C	Small molecules	Preclinical	Preclinical. IND to be filed by end of 2004.

Products in Clinical Development

HepeX™-B

XTLbio's HepeX™-B is a fully human monoclonal antibody therapeutic which binds to the HBV surface antigen (HBsAg). The product consists of two hMAbs selected from a large panel of high-affinity antibodies based on their ability to neutralise HBV in the Company's proprietary Trimera™ model for HBV. It is currently in a phase 2b trial, which includes 45 patients in 3 dosing arms and is being conducted under a US investigational new drug (IND) application in several centres in the US, Europe and Israel. Orphan drug status has been granted for HepeX™-B in the US and Europe. Results of this study are currently anticipated towards the end of 2004.

Pursuant to the HepeX™-B Collaboration, Cubist will be responsible for the future development and financing of HepeX™-B.

The Directors believe that preventing HBV re-infection after liver transplantation is approximately a US$100 million per annum market opportunity worldwide. As is the case with HCV, if HBV patients are left untreated, re-infection of the healthy transplanted liver will almost certainly occur following transplant. Currently, polyclonal preparations (human plasma-derived hepatitis B immuno-globulins binding to the HBV surface antigen (HBlg)) in combination with an anti-viral compound such as lamivudine represent the standard treatment in preventing HBV re-infection of patients who have undergone liver transplants. While clinically effective, polyclonal preparations have three potential limitations:

- high price (up to US$100,000 per patient during the first year) due to high production costs;
- complicated/uncomfortable administration to the patient (intravenous or painful intra-muscular injection); and
- safety concerns over blood-borne viruses or other potentially harmful micro-organisms.

Due to these limitations, and despite the clinical rationale for long-term therapy, there is pressure by the medical community to seek alternatives to the use of polyclonal drugs.

XTLbio's HepeX™-B therapeutic for post liver transplant patients offers the potential for:

- high margins due to lower production costs;
- simple, convenient means of administration to the patient, with less chance of injection-related side effects; and
- less risk of infection for the patient as HepeX™-B is not directly isolated from human blood.

HepeX™-B Phase 1 Clinical Trials

The phase 1 clinical trials for HepeX™-B enrolled 27 chronic HBV patients in total, and were designed to study the safety and anti-HBsAg activity of HepeX™-B.

The first part of the study (phase 1a) was conducted to evaluate a single administration of HepeX™-B. 15 patients were recruited into this part and these were divided into 5 groups, each of which received an intravenous infusion of 1 of 5 doses of HepeX™-B ranging from 0.26 milligrams (mg) to 40 mg. HBV-DNA levels were significantly reduced immediately after infusion of HepeX™-B. These DNA levels returned to normal pre-treatment levels within 24 hrs. HBsAg (a key indicator of HBV presence) levels became undetectable and returned to levels seen pre-treatment within 8 to 15 days. These two observations indicate a decrease in viral load as a result of HepeX™-B administration and the Directors believe the findings support the potential beneficial use of HepeX™-B in hepatitis infections.

The second part of the phase 1 study (phase 1b) was designed to evaluate the safety, tolerability and anti-HBsAg activity of multiple administrations of HepeX™-B. In this study, 12 patients in 4 groups received one infusion per week for 4 weeks of either a 10, 20, 40, or 80 mg dose of HepeX™-B. Following each infusion, HBsAg levels were undetectable and HBV DNA concentrations significantly decreased. The concentrations of both returned to pre-treatment levels by the time of the next weekly infusion.

The results of the phase 1 trial indicated that HepeX™-B was well-tolerated by patients. In addition, significant anti-HBV activity was demonstrated. As a result, a phase 2 study was initiated.

HepeX™-B Phase 2 Clinical Trials

The phase 2 study was designed to evaluate the safety, tolerability, and antiviral effects of various regimens of HepeX™-B in combination with lamivudine as compared with lamivudine alone. A total of 62 patients were studied and these received daily infusions of 10 mg or 40 mg HepeX™-B in combination with 100 mg lamivudine over 52 weeks. The patients were grouped into 5 dosing regimens which all included a 'loading' period of 4 weeks and 'maintenance' periods of 11 months of monthly dosing. The most notable reduction in concentration of HBsAg was observed when dosing was given frequently during the loading period of the study. Lower frequency dosing regimens in the maintenance period (once a month) produced a less notable response.

This phase 2 study demonstrated that maintaining hMAb excess of HepeX™-B suppressed levels of HBsAg in chronic HBV patients and indicated that prophylactic treatment of liver transplant patients with HepeX™-B might be used to maintain low levels of virus in the new livers and in the Directors' view substantiated further clinical investigation.

HepeX™-C

XTLbio's HepeX™-C is an hMAb therapeutic which binds to the HCV envelope (E2). HepeX™-C consists of a single hMAb selected from a large panel of high-affinity antibodies based on its ability to neutralise HCV in the Company's proprietary assays for HCV, such as the Trimera™ model.

HepeX™-C is targeted at preventing liver re-infection in HCV-infected liver transplant patients. A major problem associated with HCV-related liver transplantation is the near universal re-infection of the newly transplanted liver with the virus. There are currently no therapeutic options to prevent re-infection. When the infected liver has been removed, the free-floating virus in the patient's serum re-infects the healthy transplanted liver in a matter of days or weeks. Disease progression in re-infected patients is far more rapid than in chronic HCV patients and, in many cases, another transplant becomes necessary. The Directors believe that the key to successful prevention of re-infection in liver transplant patients is the use of hMAb therapeutics, such as HepeX™-C which has been shown to bind and neutralise the HCV virus in XTLbio's preclinical animal models of HCV infection. The Directors believe preventing this HCV re-infection after liver transplantation represents approximately a US$400 million *per annum* market opportunity worldwide.

HepeX™-C Phase 1 Clinical Trials

Safety and biological activity of HepeX™-C were assessed in a two part phase 1 clinical trial in a total of 40 chronic HCV patients.

In the first part, a phase 1a study, single doses of 0.25, 1.00, 2.50, 10.00 and 40.00 milligrams of HepeX™-C were administered to a total of 15 chronic HCV patients. In 8 out of the 15 patients, HCV-RNA levels were reduced at least by half immediately following infusion which gradually returned to initial levels, indicating anti-HCV activity of HepeX™-C.

This study was followed by a multi-dose phase 1b study designed to determine optimal dosing of HepeX^{TM}-C in 25 HCV chronic patients. All 5 doses tested were well tolerated, no drug related serious adverse events were reported and no specific pattern of adverse events noted. Concerning efficacy, 8 out of 25 patients had at least a 1 log (90%) reduction in HCV-RNA levels from pre-treatment levels following administration of HepeX^{TM}-C. These trials provided strong safety data, as well as a preliminary indication of anti-viral activity in humans.

HepeX^{TM}-C Phase 2 Clinical Trials

The Company recently initiated a phase 2a study, designed to evaluate the ability of HepeX^{TM}-C to prevent re-infection in HCV patients following liver transplantation. A blinded, placebo-controlled, dose-escalating study is currently being conducted in a total of 24 liver transplant patients receiving six different doses of HepeX^{TM}-C.

On 10 May 2004 the Company announced a partial clinical hold of 1 of the 6 dosing arms, after a patient suffering from complications associated with hepatitis C as well as hepatocellulor carcinoma did not survive the transplant operation. While the other 5 dosing arms are continuing in the phase 2a trial, the highest dosing arm was suspended as involvement of HepeX^{TM}-C could not be ruled out. The highest dosing arm will be resumed when the Company has received information from the FDA that it is satisfied that this adverse event was not related to HepeX^{TM}-C. Following the examination of the final *post mortem* report from the coroner and reports from a haematologist and a transplant surgeon engaged by the Company to review the relevant surgical data and final *post mortem* findings, the Directors believe that the causal factors of this incident are unlikely to be related to the administration of HepeX^{TM}-C.

The Company has provided all information available to it to the FDA in connection with this incident, including the external consultant reports and a thorough evaluation of HepeX^{TM}-C safety data from ongoing and completed clinical trials. Discussions between the Company and the FDA are continuing concerning the potential resumption of the highest dosing arm of the phase 2a HepeX^{TM}-C clinical trial.

Products in preclinical development

HepeX^{TM}-C Combination of Two Antibodies

XTLbio has identified and developed an additional hMAb with anti-HCV activity which it has in-licensed from Stanford University.

This additional antibody is currently being evaluated by the Company for activity against viral hepatitis C, with a view to combining it with HepeX^{TM}-C. Should the evaluation yield positive results, the Directors expect abbreviated clinical (bridging studies) trials will be required in order to commence a pivotal phase 3 trial of the additional antibody in combination with HepeX^{TM}-C. The Directors currently expect that an IND will be submitted to the FDA to begin bridging studies by the end of 2004. This combined antibody approach has been designed to further mitigate risk in the Company's portfolio.

HCV-SM

HCV-SM is a research programme focused on developing small synthetic drug candidates for the inhibition of HCV viral RNA replication. XTLbio has identified two lead candidates (XTL-2125 and XTL-2329) from two distinct chemical series of compounds licensed exclusively to XTLbio from B&C Biopharma Co. Ltd. Each candidate has exhibited activity against HCV in the Company's proprietary *in vitro* and *in vivo* preclinical drug validation systems. In preliminary *in vivo* animal studies, good toxicity profiles have been shown. The Company plans to submit an IND to the FDA by the end of 2004 for the most promising of the molecules in this programme.

The existing first-line chronic HCV therapies are often associated with a 50-60 *per cent* chance of success but is limited by severe side effects, including anaemia, fatigue, hairloss and depression. Due to the relatively limited efficacy and toxicity of this treatment, chronic HCV is still considered an unmet medical need. Current estimates are that worldwide annual sales for all products treating chronic hepatitis C are approximately of $3 billion in 2004.

Research programmes

The Company's discovery research activities have been put on hold as part of its strategic review in July 2003. However, the Directors intend to resume investment in the Company's discovery research as soon as resources allow.

The Board anticipates that such resources may become available upon successful completion of a collaboration concerning HepeX^{TM}-C.

The Company's discovery research includes hMAb research programmes focused on bacterial disease. The Directors believe that anti-bacterial prophylaxis with hMAbs may be safer, more effective and less prone to the emergence of resistant strains than other therapeutic approaches.

The Company is developing human monoclonal antibody therapeutics against *Staphylococcus epidermidis* bacteria and gram-negative bacteria such as *Pseudomonas aeruginosa.* XTLbio has generated a panel of antibodies directed against key bacterial targets with the aim of selecting those most effective in neutralising the bacteria *in vivo*.

These bacteria have been chosen because they are life-threatening, carry a large economic burden, and represent a commercial worldwide opportunity estimated to be worth more than $2 billion annually.

LICENSING AND COLLABORATIVE EFFORTS

HepeX^{TM}-B Licensing Agreement

The Company has entered into a licensing agreement with Cubist dated 2 June 2004, under which the Company has granted to Cubist an exclusive, worldwide licence (with the right to sub-licence) to commercialise HepeX^{TM}-B and any other product containing a hMAb or humanised monoclonal antibody or fragment directed at the hepatitis B virus owned or controlled by XTLbio.

In the event that the actual costs incurred in conducting activities necessary or advisable to obtain regulatory approval for HepeX^{TM}-B for the prevention of recurrent hepatitis B infections in liver transplant patients exceed US$33.9 million, any costs in excess shall be borne in equal share by the Company and Cubist, except that the Company may elect to not pay its share but rather have such share plus interest deducted from future royalty and other payments owed to it under the agreement.

Cubist has agreed to pay the Company an initial up front payment of US$1 million upon the signing of the agreement, a further aggregate amount of US$2 million as collaboration support to be paid in installments until the end of 2005 and an additional amount of up to US$3 million upon achievement of certain regulatory milestones.

Under the agreement, the Company is entitled to receive royalties from net sales by Cubist, generally ranging from 10 *per cent* to 17 *per cent*, depending on levels of net sales achieved by Cubist, subject to certain deductions based on patent protection of HepeX^{TM}-B in that territory, total costs of HepeX^{TM}-B development, third party licence payments and indemnification obligations.

Cubist has the right to sub-license HepeX^{TM}-B. The sub-licensee fees to be received by the Company in such cases shall vary according to the territory, the subject of the sub-licence, the patent protection of HepeX^{TM}-B in that territory, total costs of HepeX^{TM}-B development, third party licence payments, indemnification obligations and local competition. For example, where HepeX^{TM}-B is not patent protected and a competing product obtains more than an agreed percentage of the local market, XTLbio would receive no royalties on sales of HepeX^{TM}-B.

Cubist has granted the Company the non-exclusive right of negotiation during the term of the agreement to obtain all or any portion of the rights to manufacture and supply HepeX^{TM}-B or any other product containing an hMAb or humanised monoclonal antibody or fragment directed at the hepatitis B virus owned or controlled by XTLbio. Furthermore, in certain circumstances the Company has the exclusive right to negotiate with Cubist to obtain from Cubist a sub-license to market and sell the HepeX^{TM}-B or such other product in certain territories.

The Company has agreed that during the term of the agreement and for one year thereafter it will not research, develop or commercialise any product containing a human or humanised monoclonal antibody or fragment that is directed to and binds with the hepatitis B virus.

The agreement expires on the later of the last valid patent claim covering HepeX^{TM}-B to expire or 10 years after the first commercial sale of HepeX^{TM}-B on a country-by-country basis.

The Directors believe the licensing of HepeX^{TM}-B is consistent with its strategy and releases the Company's resources to pursue its other existing opportunities.

Trimera™ Technology

The Company's strategy in its collaboration arrangements with other biopharmaceutical companies or academic institutions is to secure direct ownership, co-ownership and/or royalty participation in drug candidates and thereby generate significant revenues from its Trimera™ technology.

The Company believes that these types of agreements provide it with valuable rights to new drug candidates which would otherwise require considerable time and cash resources to develop, and offer the third party a faster and more cost effective validation and/or selection of its experimental compounds.

Consistent with its strategy, XTLbio has been able to exploit its Trimera™ technology to gain access to drug candidates and other technology from third parties through licensing and collaborative agreements.

Regarding hepatitis C therepeutics, including HepeX-C and HCV-SM, the Company has agreements with the Bood Centre of the University of Ulm (''Ulm''), Stanford University (''Stanford''), Applied Immunogentics LLC and B&C Biopharma Co., Ltd. (''B&C Biopharma'') which have enabled it to initiate commercial development of its therapeutic portfolio targeting hepatitis C. XTLbio funds certain research and inventions surrounding HCV antibody technology at the University of Ulm in return for access to certain antigens and its animal models. The Company's agreements with Stanford grant XTLbio commercial access to a series of HCV antibodies, and the agreement with B&C Biopharma grants it access to potential HCV small molecule therapeutics. On commercialisation of therapeutics addressing hepatitis C infection, the Company could be obligated to pay total royalties of up to 5 *per cent* on funds received as a result of commercialisation and up to 25 *per cent* of any milestone payments it receives in total to Ulm, Stanford, B&C Biopharma and other third parties from sales made for any single product.

In other disease areas, the Company is currently involved in a collaboration with Biostapro AB to identify drug candidates which target *Staphylococci* infections.

In the event of commercialisation of any pharmaceutical products resulting from this collaboration, the Company could be required to pay to Biostapro AB royalties of up to 4 *per cent* of net sales received on such products and 20 *per cent* of net royalties, licence fees, milestones and other similar payments it receives.

Agreements under Discussion

The Company is in discussions with biotechnology and pharmaceutical companies to enter into various agreements in connection with the Company's products and its Trimera™ technologies. In particular, the Company is in late stage discussions with a potential collaborative partner regarding the commercialisation of HepeX™-C. Although the Directors are confident that attractive collaborations are achievable, these discussions and negotiations may not result in the conclusion of formal agreements with such companies.

The terms of such deals may include the Company receiving one or more of the following: upfront payments, milestone payments and royalties from sales of products subject to these agreements, once clinical development, registration and launch have been successfully completed.

XTLbio TECHNOLOGY

XTLbio's hepatitis and monoclonal antibody research tools enable the Company to:

- generate fully human monoclonal antibody leads;
- validate preclinical leads in a clinically relevant biological system; and
- optimise lead candidates for further development.

XTLbio believes these benefits combine to significantly increase the probability of clinical success, and reduce drug development time providing the Company with a powerful competitive advantage.

The Company's technology has played an instrumental role in developing XTLbio's pipeline to its current stage. The two clinical drug candidates were both developed using the Trimera™ system. In the case of HepeX™-B, the hMAbs were derived from Trimera™ MAb technology and validated using the Trimera™ HBV disease model. The HepeX™-C hMAb was in-licensed as a result of the Company's ability to validate HCV drug candidates in the Trimera™ HCV model and in the Company's proprietary HCV cell culture system. The Company has also leveraged its HCV preclinical validation tools to in-licence new small molecule antiviral drug candidates (in particular,

the Company's HCV-SM programme) and plans to continue gaining access to other candidates in this way.

XTLbio's technology is a method for introducing functional human tissue into a mouse. The Trimera™ technology is a patented, broadly enabling tool whereby murine immune systems are ablated by radiation, and bone marrow is transplanted from genetically immuno-deficient mice to re-enable red blood cell production. The result is the production of ''radiation chimeras''. As these chimeras have no immune system, they are able to accept implanted human cells, without rejection, thereby creating a ''Trimera™''. The resulting mouse can be used:

- to generate hMAbs (the ''Trimera™ hMAb Technology''); and/or
- as a sophisticated animal model of human disease (the Trimera™ Model Technology).

These models can be used for testing various approaches to treat human disease, including the development of new diagnostic, prophylactic and therapeutic products.

Trimera™ hMAb Technology

The Trimera™ hMAb Technology is a method of generating hMAbs from the Trimera™ model. To create the Trimera™ hMAb Technology, chimeric mice are engrafted with human white blood cells (immune cells). A primary immune response can be elicited with the Trimera™ hMab Technology by engrafting human immune cells from people who have not previously encountered the disease-causing agent (these people are said to be 'naive' to the agent) followed by introducing the agent. A 'memory response' is elicited by engrafting donor cells from individuals whose immune systems have already been exposed to the disease-causing agent and then introducing that agent.

When starting with a naive immune system, the resulting primary immune response is less vigorous than with a memory response and in some cases an additional immunogen boost may be required to amplify the immune response. However, a memory response displays a vigorous and rapid specific antibody response. Antibody forming cells can then be harvested from such mice within two weeks and then immortalised by using one of several techniques. Following selection and cloning, the resulting immortalised cells can be isolated and expanded to produce hMAbs specific to the disease-causing agent.

This approach can generate high affinity, fully human MAbs. As they are generated from an existing human immune response, the Directors believe that the resulting fully human MAbs are more likely to be efficacious as therapeutics. To further increase the probability of clinical success, the Trimera™ Model Technology can be used to select those hMAbs which display the best biological activity. XTLbio can use the Trimera™ XTL hMAb Technology to develop internal therapeutic candidates and to co-develop therapeutics with third parties using their drug targets.

Trimera™ Model Technology

The Trimera™ Model Technology, as described in more detail below, enables the rapid and cost-effective testing of drug candidates, by creating a relevant *in vivo* preclinical drug evaluation system through the use of human tissue-based disease models in small animals.

Animal-based HCV infection Model

In vivo animal modelling of human disease can be problematic due to species differences in many biological systems. The use of higher primates with biological systems closest to the human system is restricted due to the expense, limited availability and ethical issues associated with using such animals. In the past few decades, considerable progress has been made in animal modelling aimed at mimicking disease states with the development of transgenic and knockout mice and new strains of immuno-compromised mice able to accept human tissue. Whilst many useful human disease models have been developed using such approaches, several human clinical states have inadequate existing models.

XTLbio has developed the Trimera™ Model Technology to create advanced animal models of human disease for preclinical biological validation of new drug candidates. The Company has developed several models of human diseases focusing mainly on models for HBV and HCV infections. To date, the Company has entered into several collaboration agreements for its HBV and HCV models, whereby it grants access to the disease model, in return for rights to drug candidates.

The lack of small animal models that are suitable for evaluation of agents used to treat infection with HCV severely hinders the assessment of potential new therapies for the disease. In XTLbio's

HCV model, the chimeric mice are transplanted with human liver fragments infected *ex-vivo* with HCV. HCV RNA can be detected in mice sera and peaks at approximately day 18 after liver transplantation. The validity of this model for evaluation of anti-HCV agents has been demonstrated by the ability of various anti-HCV compounds including small molecules and anti-HCV hMAbs, to reduce viral loads in HCV-Trimera™ mice in a dose-dependent manner. XTLbio uses the Trimera™ Model Technology for accelerating its internal therapeutic development and as a tool to screen and evaluate third party drug candidates for licensing.

Cell-based HCV infection Models

In addition to its *in vivo* Trimera™ model, the Company has developed a secondary assay for the evaluation of putative anti-HCV drugs. The system is based on cultures of human hepatoma cell-lines (liver cells) which can be infected with HCV *in vitro.* The cell-based system allows the initial screening of a large number of molecules prior, or in parallel to, their evaluation in the Trimera™ model. Feasibility of using this cell-based system for evaluating efficacy of anti viral agents has been demonstrated using interferon, small molecules and anti-HCV E2 human monoclonal antibodies.

The combination of this assay with the HCV Trimera™ model provides a unique set of tools for evaluating the efficacy of potential HCV therapeutics.

MARKETS AND COMPETITION

Hepatitis B

Market Need

Hepatitis B is the most common form of hepatitis and one of the world's leading causes of death. About 5 *per cent* of chronic hepatitis B patients will develop end-stage liver disease, a condition which necessitates liver transplantation (source: ''Hepatitis HIV and your liver'' – Anne Monroe).

Chronic HBV infection occurs in 90 *per cent* of infants infected at birth and 6 *per cent* of people infected after age 5 years (source: Centre for Disease Control). Treatment of chronic hepatitis B is usually initiated in patients with active viral replication and signs or symptoms of liver dysfunction, e.g., elevated liver enzymes, abnormal liver biopsy, or other hepatic abnormalities.

Transplantation for Hepatitis B Disease

End-stage liver disease related to chronic viral hepatitis is the leading indication for orthotopic liver transplantation (OLT) worldwide. OLT for cirrhosis and organ failure due to HBV infections accounts for 5 *per cent* to 10 *per cent* of all adult transplants. In the United States, about 300 patients per year receive transplants for treatment of hepatitis B disease.

Prevention of Reinfection of the Transplanted Liver

Protection of the transplanted liver from recurrent HBV infection is critical to preserving graft function. Life-long HBV prophylactic treatment is probably necessary, since the virus remains in several other body compartments following removal of the infected liver. Hepatitis B infection of the transplanted liver reoccurs rapidly resulting in progressive disease, graft failure, and death. Disease recurrence occurs even more quickly after repeat transplantation. The current worldwide annual market for prevention of HBV following liver transplantation is estimated to be $100 million.

Chronic Hepatitis B – Present Solutions and Limitations

At present, there are three antiviral products available for treatment of chronic hepatitis B:

- interferon 2b (Intron® A, Schering Corporation);
- lamivudine (Epivir HBV®, GlaxoSmithKline plc); and/or
- adefovir dipivoxil (Hepsera™, Gilead Sciences, Inc.).

As seen with other chronic viral infections, prolonged treatment with a single drug may lead to drug resistance. The lack of a completely effective treatment for chronic hepatitis means that many patients develop progressive disease.

HepeX™-B Competing Products in Development for Liver Reinfection

HBIg Monotherapy

One commonly used regimen for HBV prophylaxis consists of daily administration of 10,000 units of HBIg intravenously for 7 days. Thereafter maintenance infusions of 10,000 units of HBIg are administered to maintain a desired serum concentration of antibody.

These HBIg regimens are expensive – first year charges are estimated as being is excess of US $100,000 per patient with subsequent annual charges of over US $50,000 per patient. However, even with continued HBIg therapy, hepatitis B still recurs at a rate of 20 *per cent* to 30 *per cent*. Adverse effects of HBIg include infusion-related events, such as fever, chills, back and chest pain, and the risk of blood-borne infections. Moreover, the availability of plasma-derived products is limited and the cost is high.

Polymerase Inhibitor Monotherapies

Therapeutic alternatives to HBIg that have been explored for post-transplant prevention include interferon, antiviral agents such as lamivudine and adefovir dipivoxil, as well as various therapies administered in combination with HBIg.

Lamivudine is effective in preventing recurrent infection in many transplant patients. Unfortunately, drug resistant strains of virus emerge with continued treatment. These resistant strains can then cause progression leading to graft failure.

Adefovir is used in liver transplant patients who are resistant to existing therapies, and also in liver transplant patients who were lamivudine-resistant prior to the transplant.

HBIg and Lamivudine Combination Therapy

Many transplant centres are now using a combination of HBIg and lamivudine. Preliminary reports suggest an efficacy of greater than 90 *per cent* with combination therapy. Alternative approaches are also being tried including combined use of passive and active prevention.

Hepatitis C

Market Need

Chronic hepatitis C is a serious life-threatening disease, which affects around 170 to 200 million (source: World Health Organisation) people worldwide of which the Company estimates that between 8 to 10 million reside in the US, Europe and Japan. 20-30 *per cent* of chronic hepatitis patients will eventually develop cirrhosis (a progressive liver disease) that may lead to decomposition of the liver or hepatocellular carcinoma (liver cancer). Each year 10,000 to 12,000 people die from HCV in the US alone (source: National Digestive Diseases Information Clearing-House Website). It is estimated that by the end of this decade, the number of deaths due to HCV in the US will surpass the number of deaths due to AIDS (source: Datamonitor). Due to introduction of more advanced and expensive therapy and the increase in the treated population, the worldwide market is currently estimated at $3 billion.

Currently, approximately 50 *per cent* of all liver transplants are received by patients with HCV-induced cirrhosis or hepatocellular carcinoma. In the US, about 1,900 liver transplants attributed to HCV infection are performed annually. Current experience indicates that 100 *per cent* of HCV-related liver transplant patients are re-infected with HCV after transplantation. In most of these cases, the recurrent infection leads to chronic hepatitis. For these patients, there is a need for a therapeutic agent that will prevent re-infection of the transplanted liver. HepeX™-C administration may be used to maintain low levels of circulating virus following liver transplantation and prevent hepatic reinfection and establishment of high levels of viral replication. Such maintenance of viral suppression until patients can tolerate standard antiviral therapy with existing therapeutic approaches may be crucial for successful response to therapy in the post-transplant patient.

Chronic Hepatitis C – Existing Therapeutic Approaches

Interferon alpha was first approved for use against chronic hepatitis C in 1991. At present, the optimal regimen appears to be a 24 or 48 week course of the combination of pegylated Interferon alpha and ribavirin. Since the chemically modified pegylated Interferon alpha has a prolonged half-life, and is more active, it has been replacing standard interferon both as monotherapy and as combination therapy of hepatitis C. Ribavirin is an oral antiviral agent which when added to interferon, increases the sustained response rate by two to three fold. A 24 week course of this combination therapy yields a sustained response rate of approximately 40 to 45 *per cent* in patients

with genotype 1 (the most prevalent genotype in the western world) and a significantly better sustained response with a 48 week course. Despite this improvement in response rates, approximately half of today's patient population in the US and Europe do not respond to therapy and have no therapeutic alternative. In addition, interferon-based therapy is associated with severe side effects, and has significant negative impact on patients' well-being and quality of life over a prolonged period of time.

HepeX™-C – Competing Products in Development

To date, the most notable drug candidates which have demonstrated the ability to reduce HCV in humans are a protease inhibitor developed by Boehringer Ingelheim GmbH (BILN-2061) and a polymerase inhibitor (NM-283) developed by Idenix Pharmaceuticals Inc. Both are in early-stage clinical development. Data on these compounds are limited to just several days, and a small number of patients. The ability to sustain the drug response and the long-term toxicity profile of these drugs in human are still to be demonstrated. NABI, Inc. is currently developing pooled HCIg for application in hepatitis C re-infection post liver transplantation. This product is currently in phase 1/2, and, so far as the Directors are aware, is the only competing product currently being developed to address hepatitis C re-infection in transplanted livers.

INTELLECTUAL PROPERTY

Seeking patent protection for XTLbio and its licensor's intellectual property worldwide is an important part of the Directors' strategy for the Company. XTLbio has sought wide protection for the Trimera™ system and the drug candidates derived from it, both in terms of the territories in which patents have been applied for and in terms of the overall patent strategy.

The Trimera™ system was developed at the Weizmann Institute. Yeda, has obtained broad patent protection for this technology, in conjunction with XTLbio. Yeda has granted XTLbio an exclusive worldwide licence to the Trimera™ patent portfolio. Further details of the licence are set out in Part VI of this document.

The patents and patent applications include those relating to the Trimera™ mouse, its various uses in the production of monoclonal antibodies, gene discovery, drug evaluation and modelling of HBV and HCV infection, as well as patents and applications relating to anti-HBV antibodies. XTLbio obtained licences to a portfolio of patent applications concerning anti-HCV antibodies from the University of Ulm in Germany, and Stanford University. In addition, the Company acquired an exclusive licence to a series of patent applications concerning small molecule therapeutics from B&C Biopharma. The Company also has patent applications concerning a potential HCV vaccine and a unique cell-based system for HCV infection. Altogether, the Company has exclusive rights to 72 patents and patent applications worldwide. 19 patents have been issued, and an additional 2 applications have received notice of allowance, 1 in Canada and 1 in Israel. The issued patents include 10 patents in the US, 3 patents in Israel, 3 patents in Japan and 3 patents in Europe. The patents cover the Trimera™ system, the process for its production and its use to evaluate the efficacy of drugs and to produce human monoclonal antibodies. 3 of the issued US patents and 1 of the issued Japanese patents cover modelling of HBV and HCV infection in the Trimera™ system. In addition, 2 of the issued US patents and 2 of the issued European patents cover anti-HBV antibodies, the components of XTLbio's HepeX™-B product. 1 patent was recently issued in the US covering the Company's anti-HCV antibodies; however, there can be no guarantee that the commercialisation of the Group's products will not infringe third-party rights or that third party licences (if required) can be obtained on acceptable commercial terms.

Several trademarks describing the Company's products have been filed in the US, Europe and Israel: HepeX (for the Company's anti-HBV and anti-HCV product lines) Trimera® and Trimera™ (for the Company's HBV and HCV animal models). Additional trademarks have been filed for the Company's name including XTLbio and its logo "X".

DIRECTORS, SENIOR MANAGEMENT AND SCIENTIFIC ADVISORY BOARD

Directors

Geoffrey N. Vernon, BPharm, PhD, MBA, ChDir

Non-executive Chairman

Dr. Vernon has been the Chairman of XTLbio since 1998 and a Director since September 1996. He is a former executive director of Rothschild Asset Management Ltd., partner of the venture

capital group Advent Limited, and has over 20 years' experience in healthcare and life sciences. Dr. Vernon is chairman and/or non-executive director of a number of quoted and privately owned companies in the UK, US, Germany, Ireland and Israel. He is also a Fellow of the Institute of Directors and one of the first directors in the UK to be admitted as a Chartered Director.

Martin Becker, PhD

President and Chief Executive Officer and Director

Dr. Becker has been with XTLbio since 1994. Before joining the Company, he served as Vice President of Technology, Corporate Business Development, at Syntex Corporation (now Roche Bioscience). From 1980 to 1992, Dr. Becker held various research management positions at Syva Company, the diagnostic subsidiary of Syntex where his last position was Senior Director of Biological Research. In the context of his research position, Dr. Becker was a named inventor on 14 patents covering a wide range of medical diagnostic technologies. Dr. Becker's doctorate in immunology was received from the Weizmann Institute of Science.

Jonathan Burgin, CPA, MBA

Chief Financial Officer and Director

Mr. Burgin has been with XTLbio since 1999. Before joining the Company, he was the Chief Financial Officer at YLR Capital Markets, a leading Israeli investment bank which was publicly traded on the Tel Aviv Stock Exchange. From 1984 to 1997, Mr. Burgin worked at Kesselman & Kesselman, an accounting firm and a member of PricewaterhouseCoopers International Limited. For the last three years of his tenure there, Mr. Burgin served as Senior Manager.

Shlomo Dagan, PhD

Chief Scientific Officer and Director

Dr. Dagan has been with XTLbio since 1994. Before joining the Company, he was Acting Director of Molecular Biology at ImClone Systems. His expertise includes work on cytokine muteines, chimeric, single chain and humanised antibodies. Dr. Dagan also served as Department Head of Clinical Reagents Production at Biomakor from 1974 to 1983, where his group worked on RIA kits, clinical reagents and production of control materials. Dr. Dagan's doctorate in cell biology/ immunology was received from the Weizmann Institute of Science.

Glenn M. Kazo, MSc

Chief Business Officer and Director

Mr. Kazo has been with XTLbio since 1999. Before joining the Company, he was a corporate officer at Focal, Inc., a medical device company (now a unit of Genzyme Corporation). Prior to that, Mr. Kazo held senior management positions at Enzon, Inc., where he was also a founding member. Mr. Kazo headed the steering committee between Enzon and Schering-Plough responsible for the development of Pegylated Interferon, currently the leading drug for treating hepatitis C with 2002 sales exceeding US$1 billion. He currently serves on the board of directors of Prolong Pharmaceuticals, a development-stage biogeneric pharmaceutical company based in the US.

Elkan R. Gamzu, PhD

Non-executive Director

Dr. Gamzu is the principal of enERGetics Biopharmaceutical Consultancy, LLC, a consultancy serving the biotechnology and pharmaceutical industries. As former Vice President of Drug Development at Parke-Davis, Dr. Gamzu was responsible for the clinical and regulatory development of the first drug for the treatment of Alzheimer's Disease to be approved by the US Federal Drug Administration. In addition, he was previously President and Chief Executive Officer of Cambridge NeuroScience, Inc. and also held research management positions in drug discovery with Hoffmann-LaRoche, Inc. Dr. Gamzu is a director of a number of companies in the USA, Israel and France.

Ehud Geller, PhD MBA

Non-executive Director

Dr. Geller has been a Director of XTLbio since May 1996. He is a General Partner of Medica Venture Partners, an Israeli healthcare venture capital (VC) firm. Dr. Geller has also served as President and Chief Executive Officer of Interpharm Laboratories Ltd. (currently a division of

Serono), where he was responsible for listing this start-up company on NASDAQ. Prior to that, Dr. Geller served as Executive VP of Teva Pharmaceutical Industries Ltd, Ikapharm Labs Ltd. and Wyeth Laboratories Ltd.

Rusi K. Kathoke, FCA

Non-executive & External Director

Mr. Kathoke, who is a Chartered Accountant, has been a Director of XTLbio since December 2000. As the Chief Financial Officer of BTG plc since 1986, Mr. Kathoke was responsible for negotiating BTG's employee and management buyout in 1992, for managing its subsequent listing on the London Stock Exchange in 1995, demerging and listing a subsidiary in 1998 and raising further funds from institutional investors. BTG, which is based in London and Philadelphia finds, develops and commercialises technologies, many of which are in the life sciences field. Mr. Kathoke therefore has over 20 years of experience in investing in technology, managing early and development stage companies, in fund raising and in realising value through the creation, protection and commercialisation of intellectual property. He is also a trustee of the Triangle Trust, a charitable foundation established to assist the disabled and disadvantaged.

Patricia A. Smith, B Med Sci, BM BS, MRCP(UK) Dip Pharm Med

Non-executive & External Director

Dr. Smith has been a Director of XTLbio since December 2000. Dr. Smith was a practising physician in hospital cardiology and general medicine for several years before entering the pharmaceutical industry. She has held senior positions in international clinical development and international marketing at Zeneca plc and gained experience in business development and business planning. In 1997, she left her role as UK Marketing Director at Zeneca having been involved in 11 drug registrations and product launches in three years, with annual sales of £125 million, to establish an independent healthcare consultancy working with biotechnology companies, big pharma and investment banks to evaluate healthcare opportunities. Dr. Smith is a director of Bio-Medical Research Ltd, an Irish company that designs and distributes EMS, TENS and fitness equipment and she is CEO of their consumer division (Slendertone). She is also a director of Paratek Pharmaceuticals (USA), an antibiotic development company. Dr. Smith is a member of the Royal College of Physicians (UK).

Peter Stalker III, AB

Non-executive Director

Mr. Stalker has been a Director of XTLbio since January 2004. Mr. Stalker was formerly a Managing Director at E. M. Warburg Pincus and Co. Inc., one of the largest private equity and venture capital firms in the world. During his tenure from 1984 to 1998, he was responsible for overseeing venture-banking investments in the biotechnology, pharmaceutical and specialty chemical industries. In this capacity, Mr. Stalker worked closely with the managements of over 30 portfolio companies, overseeing both private and public financings for more than a dozen biotechnology companies. Currently, Mr. Stalker serves as a director of several privately held companies including OpenSource Asia and Biogenex. In addition, he is actively engaged on the board of a number of national and local not-for-profit organisations including The National Alliance for Hispanic Health, where he is treasurer and member of the executive committee, and the Connecticut chapter of The Nature Conservancy.

Senior Management

Neil Graham, MD, MBBS, MPH

Chief Medical Officer, XTL Biopharmaceuticals, Inc.

Dr. Graham has been with XTLbio since 2002. Before joining the Company, he was Vice President, Clinical Research and Medical Affairs at Tibotec-Virco N.V., a subsidiary of Johnson and Johnson Corporation, involved in the development of treatments for HIV. Prior to that, Dr. Graham worked at GlaxoWellcome, Inc. (now GlaxoSmithKline) as Director of HIV Programs in the US. Before moving to industry, Dr. Graham spent 7 years as a faculty member in Infectious Diseases Epidemiology at Johns Hopkins Medical Institutions in Baltimore. He received his Medical degree, Masters of Public Health and Doctorate in Epidemiology, from the University of Adelaide, Australia.

Scientific Advisory Board

The Company has established an advisory board of physicians and scientists to advise on scientific and technical matters relating to the Company's business. These advisers are:

Norman R. Klinman, MD PhD

Dr. Klinman has been a Member of the Department of Immunology at The Scripps Research Institute and an Adjunct Professor, Department of Biology, at the University of California, San Diego since 1979. Dr. Klinman's awards include the Parke-Davis Award (1976) and the National Institutes of Health Merit Award (1986-1996). His research has dealt with the mechanism by which antibodies are generated. Dr. Klinman received his MD degree from Jefferson Medical College and his PhD degree in immunology from the University of Pennsylvania.

Ronald Levy, MD PhD

Dr. Levy is the Robert K. Summy and Helen K. Summy Professor and Chief of the Division of Oncology at Stanford University School of Medicine. Dr. Levy has been the recipient of the Joseph Steiner Prize (1989), the Ciba-Geigy Drew Award in Biomedical Research (1983) and the Armand Hammer Award for Cancer Research (1982). He was Chairman of the American Cancer Society Study Section on Immunology 1988-1992 and previously served as the Chairman of the Board of Scientific Counselors, Division of Cancer Treatment of the National Institute of Health (1989-1993) Dr. Levy has published numerous articles in the field of immunology. He holds a BA degree from Harvard University and an MD degree from Stanford University.

Jean Francois Bach, MD

Dr. Bach's principal areas of scientific interest are auto-immune diseases, immunotherapy, biology of the thymus and medical genetics. He is Head of the Clinical Immunology Unit and Head of the Immunology Research Laboratories at Necker Hospital and is also Professor of Immunology at the Necker Facility. He is a member of the Council of CNRS and Chairman of the Scientific Council of the French National Cancer League and has published five books focused on immune disorders.

T. Jake Liang, MD

Dr. Liang received his BA, *magna cum laude* from Harvard University in 1980 and MD, *magna cum laude* with special honour from Harvard Medical School in 1984. He completed a residency in Internal Medicine at New York University Medical Center/Bellevue Hospital in 1984-1987 and then a Gastroenterology/Hepatology fellowship at Massachusetts General Hospital/Harvard Medical School in 1987-1990. He was an Assistant Professor of Medicine at Harvard Medical School from 1990 to 1995. In 1995, he became the Chief of Liver Diseases in the intramural programme of the National Institutes of Health. Dr. Liang has served on numerous committees and advisory panels of national and international organisations. Dr. Liang was an Associate Editor of Hepatology and is now an Associate Editor of Gastroenterology. Dr. Liang's research programme focuses on the molecular pathogenesis and mechanisms of virus-host interactions of HBV, HCV and hepatocellular carcinoma.

Richard P. Novick, MD

Dr. Novick is an Investigator at the Skirball Institute of Biomolecular Medicine at NYU Medical Center, New York, NY and a member of its Molecular Pathogenesis Program. Dr. Novick received his MD degree with honors from NYU School of Medicine 1959. Dr. Novick was a Postdoctoral Fellow at the National Institute for Medical Research in London, England, 1961-1962. He was a Special Postdoctoral Fellow at The Rockefeller University, New York, NY from 1963-1965.

EMPLOYEES

As at 31 December 2003, the Company had a total of 55 employees as follows:

	Year ended 31 December		
	2001	*2002*	*2003*
Research and Development	76	65	47
Financial and general management	7	7	6
Business development	2	2	2

The Company maintains a high standard of technical expertise among its staff, with 50 employees holding a degree, 26 of whom have a higher degree, including 16 with PhDs. A significant number of the Company's management and professional staff have had prior experience with biotechnology, pharmaceutical and/or medical product companies.

The average number of full-time employees for the last three financial years was:

Year ended 31 December	*Number*
2001	75
2002	89
2003	68

GRANTS

The Company has received grants from the Office of the Chief Scientist of the Israeli Minister of Trade (''OCS'') as participation in the cost of certain of the Company's projects. Grants received from the OCS as at 31 December 2003 amounted to US$6,926,000. The Company is required to re-pay such grants through the payment of royalties on products resulting from such research and development projects at the rate of 3 to 6 *per cent* per annum until the cumulative amount of royalties paid is equal to 100 *per cent* of the original sum received, the amount varying from one project to another, except in the event of transfer of manufacturing rights, as set out below. As of 1999, all amounts granted by the OCS bear interest at the LIBOR rate.

The Company has undertaken to the OCS to abide by the provisions of the Law for Encouragement of Research and Development in Industry – 1984, which includes an obligation not to transfer the know-how, rights attached to the know-how and the manufacturing rights derived from the research and development to third parties, without the prior approval of the research committee of the OCS. Such approval is not required in order to export any products resulting from such research or development. Approval of the transfer of manufacturing rights under the technology developed may be granted only if the Company abides by all the restrictions on the transfer of know-how and the OCS has the right to increase the cumulative amount of royalties up to 300 *per cent* of the original amounts received in these circumstances.

These grants have been used to fund expenses for the research of HepeX^{TM}-B, HepeX^{TM}-C and other research programmes.

The Company has received the approval of the OCS for the transfer of manufacturing rights of its HepeX^{TM}-B product, under the terms and conditions of the HepeX^{TM}-B Collaboration with Cubist. As a consequence thereof, the Company is obligated to re-pay the grants received from the OCS for the financing of the HepeX^{TM}-B product from any amounts received by the Company from Cubist due to the sales of the HepeX^{TM}-B product, at a percentage rate per annum calculated based on the aggregate amount of grants received from the OCS divided by all amounts invested by the Company in the research and development activities of HepeX^{TM}-B, and up to an aggregate amount of 300 *per cent* of the original amounts received for such project, including interest at the LIBOR rate. As of 31 December 2003, the aggregate amount received from the OCS for the financing of the HepeX^{TM}-B project was equal to US$4,161,000.

TRADING RECORD

Below is a summary extracted from the Company's report and accounts for the previous 3 years. For full financial information please refer to these documents.

	Year ended 31 December		
	2001	*2002*	*2003*
	US$ in thousands		
Research and Development			
Costs	12,206	13,302	13,793
Less Participations	1,133	75	3,229
	11,073	13,227	10,564
General and Administrative			
Expenses	2,982	3,594	3,058
Business development costs	1,067	916	664
Impairment of asset held for Sale			354
Operating loss	15,122	17,737	14,640
Financial income – net	2,448	597	352
Loss for the period	12,674	17,140	14,288

There have been no interruptions in the Group's business in the twelve months prior to the date of this document.

CORPORATE GOVERNANCE

The Company is not required to comply with the Principles of Good Governance and Code of Best Practice (the ''Combined Code'') appended to the Listing Rules but has voluntarily decided to do so in so far as is appropriate having regard to the size and nature of the Company and subject to the provisions of Israeli law and practice.

The Directors have set out below the means by which they apply current best practice corporate governance procedures within the Company.

Board of Directors

The Board comprises four Executive and six Non-executive Directors. The role of Non-executive Directors is to ensure that independent judgement is brought to Board deliberations and decisions.

Rusi Kathoke and Patricia Smith are ''External Directors'' as required under the Israeli Act. According to the Israeli Act, they are elected for a period of three years. All other directors are required to submit themselves for re-election every year.

The Israeli Act also requires both External Directors to be members of the Audit Committee and at least one of them to be a member of the Remuneration Committee. The Board regards these Directors as fulfilling the role of senior independent Directors as specified in the Combined Code.

The Board meets at least five times a year with additional meetings, by teleconference if necessary, when circumstances and urgent business dictate. The Board has adopted a formal schedule of matters specifically reserved to it for decision. These include overall Company strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management and treasury policies and the establishment and monitoring of internal controls. Directors are given appropriate and timely information for each board meeting. At each meeting, the Board reviews the progress of the Company towards its objectives, particularly in respect of the development projects and monitors financial performance against budget. The Chairman ensures that all Directors are properly briefed on issues arising at board meetings. The roles of the Chairman and Chief Executive are kept separate.

Where necessary, training is made available to the Directors to assist them in the performance of their duties, and each has access to the services of the Company Secretary. The appointment and removal of the Company Secretary is determined by the Board as a whole.

The Directors are entitled to seek independent professional advice in furtherance of their duties, if necessary, at the Company's expense. The Board established a Nomination Committee to deal in all matters relating to Board appointments.

Principal Committees

Audit Committee

The Audit Committee comprises of three non-executive Directors. The Audit Committee is chaired by Ehud Geller with Rusi Kathoke and Patricia Smith as members. It has written terms of reference as required by the Israeli Act. The Audit Committee meets at least twice a year and monitors the adequacy of the Company's internal controls, accounting policies and financial reporting. It regularly reviews the results of the ongoing risk self-assessment process, which the Company undertakes, and the Company's interim and annual reports prior to their submission for approval by the full Board. It also provides a forum through which the Company's external auditors report to the Board. The Audit Committee oversees the activities of the Company's internal auditor, sets his annual tasks and goals and reviews his reports. The Audit Committee reviews the objectivity and independence of the external auditors and also considers the scope of their work and fees. Provision is made for the Audit Committee to meet at least once a year with the Company's external auditors in the absence of any member of management.

Remuneration Committee

The Remuneration Committee consists of five non-executive Directors of the Company, currently Geoffrey Vernon as Chairman of the Remuneration Committee, Elkan Gamzu, Ehud Geller, Rusi Kathoke and Patricia Smith. The responsibilities of the Remuneration Committee are to set the Company's overall policy on executive remuneration and to decide the specific remuneration, benefits and terms of employment for each Executive Director, including the Chief Executive, and a number of other senior managers. The objectives of the Remuneration Committee's policies are that Executive Directors should receive compensation, appropriate to their performance, level of responsibility and experience. In order to determine the elements and level of remuneration appropriate to each Executive Director, the Remuneration Committee reviews surveys on executive pay, obtains external professional advice and considers individual performance.

Nominations Committee

This Committee comprises of three non-executive Directors, Ehud Geller as Chairman of the Committee, with Geoffrey Vernon and Rusi Kathoke as members. The Nominations Committee assesses candidates of suitable knowledge, experience and calibre for consideration by the Board as potential Directors of the Company. The candidates, however, are considered by the full Board before appointment.

PART III

ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names appear in paragraph 5.1 of this Part III, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and Registration

(i) The Company was incorporated and registered in Israel on 9 March 1993 under the Ordinance as a private company limited by shares, with registered number 51-178977-0 under the name Xenograft Technologies Ltd. On 7 June 1993, the Company was re-registered as a public company under number 52-003947-0.

(ii) The Company has its registered office at Kiryat Weizmann Science Park, Building 3, 3 Hasapir Street, Rehovot 76100, Israel.

(iii) The Company does not have a place of business in the United Kingdom.

(iv) The name of the Company was changed on 3 July 1995 to XTL Biopharmaceuticals Ltd. The principal legislation under which the Company currently operates is the Israeli Act.

3. Share Capital

3.1 Immediately following the admission of the Company's Ordinary Shares to the Official List of the UK Listing Authority on 26 September 2000, the authorised share capital of the Company was NIS6,000,000 divided into 300,000,000 Ordinary Shares of NIS0.02 each, of which 108,009,900 were issued and fully paid. Since 26 September 2000, there have been the following changes to the issued share capital of the Company:

(a) On 26 October 2000, the Company issued 2,850,000 Ordinary Shares following the exercise of an over-allotment option granted to WestLB Panmure at a price of 150p per share.

(b) On 12 May 2001, the Company issued 11,988 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(c) On 17 June 2001, the Company issued 44,100 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(d) On 31 August 2001, the Company issued 26,000 Ordinary Shares following the exercise by a consultant of the Company of options granted to such consultant under the Company's Share Option Schemes.

(e) On 12 September 2001, the Company issued 52,000 Ordinary Shares following the exercise by a consultant of the Company of options granted to such consultant under the Company's Share Option Schemes.

(f) On 18 September 2001, the Company issued 26,000 Ordinary Shares following the exercise by a consultant of options granted to such consultant under the Company's Share Option Schemes.

(g) On 30 September 2001, the Company issued 1,750 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(h) On 23 October 2001, the Company issued 104,000 Ordinary Shares following the exercise by a consultant of options granted to such consultant under the Company's Share Option Schemes.

(i) On 20 November 2001, the Company issued 1,300 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(j) On 21 November 2001, the Company issued 22,376 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(k) On 25 February 2002, the Company issued 1,750 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(l) On 27 February 2002, the Company issued 4,200 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(m) On 22 April 2002, the Company issued 10,000 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(n) On 3 March 2003, the Company issued 13,000 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(o) On 12 May 2003, the Company issued 832,000 Ordinary Shares following the exercise by employees and directors of options granted to such employees and directors under the Company's Share Option Schemes.

(p) On 3 June 2003, the Company issued 4,550 Ordinary Shares following the exercise by employees of options granted to such employees under the Company's Share Option Schemes.

(q) On 4 August 2003, the Company issued 3,250 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

(r) On 17 December 2003, the Company issued 1,300 Ordinary Shares following the exercise by an employee of options granted to such employee under the Company's Share Option Schemes.

3.2 Subject to the passing of the first resolution set out in the notice of Extraordinary General Meeting at the end of this document, the Directors will be generally and unconditionally authorised to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of NIS 1,120,195, such authority to expire 15 months from the passing of the resolution or, if earlier, the conclusion of the next annual general meeting of the Company.

3.3 Subject to the passing of the second resolution set out in the notice of Extraordinary General Meeting at the end of this document, the Directors will be empowered to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply, such power being limited to the allotment of equity securities in connection with the Fundraising.

3.4 The Articles confer on Shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash. These rights which apply to the allotment of unissued Ordinary Shares to the extent that such rights are not disapplied as described in paragraph 3.3 above.

3.5 The following table shows the authorised and issued share capital of the Company as it will be immediately prior to, and following, the Fundraising:

	Immediately prior to the Fundraising *Ordinary Shares*		*Following the Fundraising*[(1)] *Ordinary Shares*	
	Number	*NIS*	*Number*	*NIS*
Authorised	300,000,000	6,000,000	300,000,000	6,000,000
Issued and fully paid	112,019,464	2,240,389	168,029,196	3,360,584

Note: (1) assuming that all New Ordinary Shares are subscribed pursuant to the Fundraising.

3.6 As at the date of this document, 910,000 warrants are held by consultants to the Company at an average price of US$1.061 in the range of US$0.196 to US$2.11. 740,000 of such warrants are exercisable not later than September 2010. 170,000 of such warrants are exercisable within a period of two years from the achievement of certain milestones.

3.7 At the date of this document, option holders who are Directors, officers or employees of the Company are entitled to exercise options to subscribe for a total of 17,177,661 Ordinary Shares. These options are exercisable not later than September 2013 at an average price of US$0.65, in the range of between less than one cent and US$2.11.

3.8 The New Ordinary Shares will be issued fully paid and all Ordinary Shares will be in registered form and are capable of being held in uncertificated form by way of Depository Interest. Otherwise than pursuant to the Fundraising, none of the New Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to the Official List. Temporary documents of title will not be issued in connection with the Fundraising.

3.9 The Issue Price of 17.5p represents a premium of 7,140 *per cent* to the nominal value of NIS 0.02 per Ordinary Share on the basis of an exchange rate of NIS8.16 for each £1 and that the assumed nominal value of the Ordinary Shares for this purpose is 0.245p.

3.10 Following the Fundraising and after allowing for Ordinary Shares reserved for issue pursuant to the exercise of options granted under the warrants and Share Option Schemes referred to in paragraphs 3.6 and 3.7, approximately 113,883,143 Ordinary Shares will remain authorised but unissued and unreserved representing approximately 67.8 *per cent* of the issued ordinary share capital of the Company. The Directors have no present intention of issuing any of these Ordinary Shares.

4. Articles of Association

4.1 The objects of the Company are set out in clause 3 of its Articles and state that the Company may carry on any lawful activity.

4.2 The following is a summary of the material provisions of the Articles adopted by resolution of the Shareholders of the Company on 5 December 2000, including the rights attaching to the Ordinary Shares:

(a) *Dividends*

The Board shall, from time to time, and not less than once per year, determine the amount of profits which shall be appropriate for distribution as a dividend, all in accordance with the provisions of the Israeli Act and pursuant to the on-going requirements and approved development plans of the Company, taking into consideration the range of the financial reserves and the predicted cashflows of the Company and also its financial leverage.

Any dividend unclaimed for a period of twelve years after having become due for payment will be forfeited and revert to the Company.

(b) *Voting*

A resolution at a general meeting shall be carried by a vote of the members present and voting at the meeting, in person or by proxy. Every question submitted to a general meeting shall be decided by a show of hands, but if a written ballot is demanded by a majority of the members present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot.

Each resolution of the general meeting (including a resolution with respect to the amendment, alteration or addition to the Articles or any replacement thereof) shall be carried by a simple majority.

Each share shall entitle the holder thereof to one vote for each share owned by him and to which a voting right is attached without regard to the nominal value of that share, unless the terms of issue of the share provide otherwise. There are no restrictions on voting contained in the Articles.

(c) *Variation of Rights*

Notwithstanding any other provision in the Articles to the contrary, the rights attached to any class of shares may be modified or abrogated by the Company, by resolution requiring the approval of shareholders holding three-quarters of the voting rights in the relevant class of shares in the Company. Subject to the terms of issue or of rights attached to any class of shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Articles.

(d) *Pre-emption Rights*

Subject to the provisions of the Articles and to the terms of any resolution to the contrary passed by the Company in general meeting, the Company shall not allot any shares to any person unless it shall first have made an offer to each person who holds shares in it to allot to him shares on the same or more favourable terms a proportion of those shares which is, as nearly as practical, equal to the proportion in nominal value of relevant shares held by him on the date of any such allotment, but subject to all exclusions or other arrangements as the Directors may deem necessary or expedient in their exclusive discretion to deal with fractional entitlements or legal or practical problems under the laws, or the requirements, of any regulatory authority or stock exchange in any jurisdiction. In the case of any such problems thought by the Directors to arise out of United Kingdom legal or regulatory requirements, the Directors must take and in good faith consider appropriate advice before deciding upon any exclusion or arrangement. This provision does not apply to a particular allotment of shares if these are, or are to be, wholly or partly paid up otherwise than in cash and does not apply to shares which the Company has offered to allot to a holder of relevant shares or anyone in whose favour he had renounced his right to their allotment.

(e) *Allotment of Shares*

The Company may pass a resolution of its shareholders authorising the Directors to allot relevant securities (as defined in section 80(2) of the Act) and, upon the passing of such a resolution, the Directors shall be authorised to allot relevant securities provided that the nominal amount of such securities where they are shares, and, where such securities are not shares, the nominal amount of the shares in respect of which such securities confer the right to subscribe or convert, shall not exceed in aggregate the sum specified in such resolution and that such authority shall (unless otherwise specified in such resolution or varied or abrogated by resolution passed at an intervening extraordinary general meeting) expire at the conclusion of the general meeting of the Company next following the passing of such resolution save that the Company shall be entitled before such expiry to make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors shall be entitled to allot relevant securities in pursuance of such offer or agreement as if such authority had not expired, and all (if any) previous authorities shall thenceforth cease to have effect.

The Company may pass a resolution of its shareholders holding at least 75 *per cent* of the voting power of the Company, authorising the Directors to allot equity securities (as defined in sections 89 to 96 of the Act) for cash and upon such resolution being passed the Directors shall (subject to their being authorised to allot relevant securities in accordance with the above be empowered to allot (pursuant to any such authority) equity securities for cash, provided that such power shall be limited to the allotment of equity securities having, in the case of relevant shares, a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate the nominal amount specified in such resolution, and such power shall (unless otherwise specified in such special resolution or varied or abrogated by special resolution passed at an intervening extraordinary general meeting) expire at the conclusion of the annual general meeting of the Company next following the passing of such resolution save that the Company shall be entitled before such expiry to make an offer or agreement which would or might

require equity securities to be allotted after such expiry and the Directors shall be entitled to allot equity securities in pursuance of such offer or agreement if such authority had not expired.

(f) *Transfer of Shares*

No transfer of shares shall be registered unless a proper writing or instrument of transfer (in any customary form or any other form satisfactory to the Directors) has been submitted to the Company (or its transfer agent), together with the share certificate(s) and such other evidence of title as the Directors may reasonably require. Until the transferee has been registered in the register of members of the Company in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof.

(g) *Alteration of Capital*

The general meeting of the Company may, from time to time, by resolution requiring the approval of shareholders holding a majority of the voting rights in the Company: (i) increase its share capital; (ii) consolidate and divide all or any of its issued or unissued authorised share capital into shares of a per share nominal value which is larger than the per share nominal value of its existing shares; (iii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by the Articles (subject, however, to the provisions of the Israeli Act); (iv) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; or (v) reduce its share capital in any manner, and with and subject to any incident authorised, and consent required, by law.

(h) *Director Voting*

At a vote of the Board, each Director shall have one vote. Decisions of the Board shall be carried by a simple majority of the Directors voting on any matter on the agenda.

(i) *Remuneration*

Subject to any approvals required by law, a Director shall be entitled to receive from the Company remuneration, benefits, and reimbursement or payment on account of expenses.

(j) *Borrowing Powers*

The Company can borrow or secure the payment of any sum of money for the purposes of the Company, and can secure or provide for the repayment of such sum upon such terms and conditions as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertakings or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

(k) Retirement

The Directors shall be appointed by a simple majority of the shareholders at a duly convened general meeting. The Directors' term of office shall expire upon the closing of the next general meeting appointing Directors. A Director may be removed from office by a simple majority of the shareholders of the Company at a duly convened general meeting.

(l) *Return of Capital*

A general meeting may adopt a resolution for the winding-up of the Company, provided that the resolution is passed by the majority required by law, and in the absence of any legal requirement for a specific majority, by the majority required in accordance with the Articles.

If the Company is wound up and the assets available for distribution among the shareholders are not sufficient for payment in full of the paid up share capital of the Company, the assets shall be distributed, as far as possible, so that shareholders will bear the losses proportionately to the share capital paid or that should have been paid by the commencement of the winding up, and the number of shares held by the shareholders. If the Company is wound up and the assets available for distribution

among the shareholders are more than sufficient for payment in full of the paid up share capital at the time of commencement of the winding up, the surplus shall be distributed among the shareholders proportionately to the share capital paid or that should have been paid by the commencement of the winding up, and the number of shares held by the shareholders. The aforesaid shall not affect the rights of holders of any shares issued with special rights.

For the purposes of the distribution of the assets of the Company at the time of a liquidation, no account shall be taken of any payments that have been made by way of share premium.

If the Company is wound up, by way of voluntary liquidation or otherwise, the liquidators may, if the approval of the general meeting is given with the majority required by law distribute any portion of the assets of the Company among the shareholders in specie, and the liquidators may, subject to receiving approval as aforesaid, deposit any part of the assets of the Company with trustees upon trust for the benefit of the shareholders. A general meeting that approves any distribution as aforesaid may also approve a distribution in a manner other than in accordance with the legal rights of the shareholders and may grant special rights to any class of shareholders, provided that if a resolution is adopted authorising any distribution other than in accordance with the legal rights of the shareholders, a shareholder who has been harmed thereby shall have the right to object, in the same manner as if the resolution had been adopted by the majority required in section 334 of the Ordinance.

(m) *Insurance, Release and Indemnification of Officers*

The Company may enter into agreements from time to time to insure officers against any liability incurred as a result of certain actions carried out whilst an officer of the Company.

The Company may also indemnify (or undertake to indemnify (with shareholder consent)) officers in respect of a liability or expense imposed on him as a result of action taken in his capacity as an officer and may also (with shareholder consent) release officers in advance from liability for damage suffered by the Company as a result of any breach of duty by an officer.

(n) *Certificated Form*

The Company may allow for shares in the Company to be issued, held, registered, converted to, transferred or otherwise dealt with in uncertificated form and converted from uncertificated form to certificated form in accordance with the Regulations and practices instituted by the operator of the CREST system.

5. Directors' and Other Interests

5.1 The Directors of the Company and their respective functions are as follows:

Executive	*Function*
Martin Becker	Chief Executive Officer
Jonathan Burgin	Chief Financial Officer
Shlomo Dagan	Chief Scientific Officer
Glenn Kazo	Chief Business Officer
Non-executive	*Function*
Geoffrey Vernon	Non-executive Director and Chairman
Elkan Gamzu	Non-executive Director
Ehud Geller	Non-executive Director
Rusi Kathoke	Non-executive Director
Patricia Smith	Non-executive Director
Peter Stalker III	Non-executive Director

5.2 The business address of all of the Directors is Kiryat Weizmann Science Park, Building 3, 3 Hasapir Street, Rehovot 76100, Israel, the Company's registered office.

5.3 As at 30 June 2004 (being the latest practicable date prior to the publication of this document), the interests of the Directors and persons connected with them in the share capital of the Company the existence of which is known to or could with reasonable diligence be ascertained by that Director, whether or not held through another party, together with any options, were as follows:

	Immediately prior to the Fundraising			*Immediately following the Fundraising*[1]		
	Ordinary Shares (Beneficial)	*Options*	*Per cent (on fully diluted basis)*	*Ordinary Shares (Beneficial)*	*Options*	*Per cent (on fully diluted basis)*
EXECUTIVE						
Martin Becker	860,000	3,778,333	3.57	875,763	3,778,333	2.50
Jonathan Burgin	20,000	1,382,053	1.08	20,000	1,382,053	0.75
Shlomo Dagan	57,000	2,031,333	1.61	57,000	2,031,333	1.12
Glenn Kazo	135,000	1,876,667	1.55	135,000	1,876,667	1.08
NON EXECUTIVE						
Geoffrey Vernon	70,000[2]	800,000	0.71	100,000[2]	800,000	0.48
Elkan Gamzu	40,000	525,000	0.43	118,817	525,000	0.35
Ehud Geller	78,360	300,000	0.29	78,360	300,000	0.20
Rusi Kathoke	15,000	—	0.01	15,000	—	0.01
Patricia Smith	60,000	—	0.05	75,763	—	0.04
Peter Stalker III	—	—	—	315,270	—	0.17

Note (1): Assumes that the Directors take up their respective maximum subscriptions under the Directors' Subscriptions. It is also assumed that Resolutions 3 to 7 to be proposed at the EGM authorising the issuance of New Ordinary Shares to the Directors are duly approved and that to the extent that 455,613 New Ordinary Shares are subscribed pursuant to the Directors' Subscriptions no such shares are subject to reduction to satisfy valid applications pursuant to the Open Offer.

Note (2): Dr. Vernon's interest is non-beneficial and is held by Ziggus Holdings Ltd.

5.4 Peter Stalker III and Elkan Gamzu have conditionally agreed to subscribe for 315,270 New Ordinary Shares and 78,817 New Ordinary Shares respectively pursuant to the US Private Placement; Patricia Smith, Martin Becker and Geoffrey Vernon have conditionally agreed to subscribe for 15,763 New Ordinary Shares, 15,763 New Ordinary Shares and 30,000 New Ordinary Shares respectively pursuant to the Israeli Private Placement. Such subscriptions are subject to reduction to satisfy valid claims under the Open Offer. These subscriptions are conditional upon the passing of Resolutions 3, 4, 5, 6 and 7 respectively to be proposed at the EGM authorising the issuance of New Ordinary Shares to the Directors. In the event that such resolutions are not approved, the Directors would not be permitted to subscribe. The conditional subscriptions of Mr Stalker III and Dr Gamzu, being part of the US Private Placement, and Dr Smith, Dr Vernon and Dr Becker, being part of the Israeli Private Placement, are not being underwritten by Altium Capital pursuant to the UK Placing and Open Offer Agreement.

5.5 Each of the Directors (other than Peter Stalker) have signed irrevocable undertakings not to take up their entitlements to New Ordinary Shares pursuant to the Open Offer. Such New Ordinary Shares have been placed firm with constitutional investors in the UK pursuant to the UK Placing.

5.6 The following options granted to Directors under the Share Option Schemes are currently outstanding, as set out below:

Name	*Number of Ordinary Shares*	*Exercise price (US$)*	*Date of grant and start of exercise period*	*End of exercise period*
EXECUTIVE				
Martin Becker	1,261,000	0.3650	January 1997	January 2007
Martin Becker	2,274,000	0.4970	October 1998	October 2008
Martin Becker	243,333	0.9313	May 2001	May 2011
Jonathan Burgin	678,720	0.4970	August 1999	August 2009
Jonathan Burgin	580,000	1.1000	April 2000	April 2010
Jonathan Burgin	123,333	0.9313	May 2001	May 2011
Shlomo Dagan	782,780	0.3650	January 1997	January 2007
Shlomo Dagan	1,105,220	0.4970	October 1998	October 2008
Shlomo Dagan	143,333	0.9313	May 2001	May 2011
Glenn Kazo	840,000	0.497	August 1999	August 2009
Glenn Kazo	840,000	1.1000	April 2000	April 2010

Name	Number of Ordinary Shares	Exercise price (US$)	Date of grant and start of exercise period	End of exercise period
Glenn Kazo	*196,667*	*0.9313*	*May 2001*	*May 2011*
NON-EXECUTIVE				
Geoffrey Vernon	*500,000*	*0.4970*	*October 1998*	*October 2008*
Geoffrey Vernon	*300,000*	*2.1100*	*September 2000*	*April 2010*
Elkan Gamzu	*225,000*	*0.4970*	*July 1999*	*July 2011*
Elkan Gamzu	*300,000*	*2.1100*	*September 2000*	*April 2010*
Ehud Geller	*300,000*	*2.1100*	*September 2000*	*April 2010*

All options under the Share Option Schemes were granted for nil consideration.

5.7 On 24 October 1998, Dr. Martin Becker entered into an employment agreement with the Company as Chief Executive Officer. Dr. Becker is entitled to receive an annual salary, which is currently US$280,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and approved by the Board. The Company shall pay any US tax liability imposed on Dr. Becker due to his employment by the Company and he is also entitled to receive benefits comprising managers' insurance, advanced training fund and a company car. There is a non-compete clause surviving two years after termination of employment preventing Dr. Becker from competing in any project in which the Company is engaged at that time and preventing him from competing directly or indirectly with the Company or soliciting employees or customers of the Company. The employment agreement is for a term of four years expiring on 23 October 2002 unless terminated by either party giving six months' prior notice. Dr. Becker is entitled, on termination of his employment, to receive a sum amounting to his annual salary, less any amounts contained in the managers' insurance for severance pay. On 24 October 2002, Dr. Becker and the Company entered into an amendment to the employment agreement by which the employment agreement was automatically extended for consecutive one year periods, unless terminated by either party giving six months' prior notice.

5.8 On 1 August 1999, Jonathan Burgin entered into an employment agreement with the Company as Chief Financial Officer. Mr. Burgin is entitled to an annual salary which is US$140,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and set by the Board and he is also entitled to receive benefits comprising managers' insurance, advanced training fund and use of a company car. There is a non-compete clause surviving one year after termination of employment, preventing Mr. Burgin from competing directly or indirectly with the Company, or soliciting employees or customers of the Company. The employment agreement is terminable by either party giving three months' notice to the other and in the event that the Company terminates his employment, Mr. Burgin is entitled to an additional three months' salary.

5.9 On 1 May 1994, Dr. Shlomo Dagan entered into an employment agreement with the Company. Dr. Dagan is currently employed as Chief Scientific Officer. Dr. Dagan is entitled to an annual salary which is currently US$165,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and set by the Board and he is also entitled to receive benefits comprising managers' insurance, advance training fund and use of a company car. There is a non-compete clause surviving two years after termination of employment. The employment agreement shall be renewed automatically every two years in accordance with its terms unless terminated by either party giving three months' written notice. Any renewals are subject to renegotiation.

5.10 On 21 July 1999, Glenn Kazo entered into an employment agreement with the Company as Chief Business Officer of the Company and general manager of the Company's wholly-owned US subsidiary. Mr. Kazo is entitled to an annual salary which currently is in the amount of US$225,000. He is entitled to receive discretionary bonus payments of up to 25 *per cent* of annual salary on achievement of milestones recommended by the Remuneration Committee and set by the Board. The employment agreement also details the award certain stock options, the amount of which is detailed in the table set out in paragraph 5.5 above. In addition, the Company has agreed to reimburse Mr. Kazo on a grossed up basis on amounts paid for the premiums on his existing life insurance policy, and pay for his current health

insurance benefits. The employment is at will, which means that either party may terminate the employment at any time with or without cause. In the event of termination, Mr. Kazo is entitled to six months' severance pay.

5.11 By an agreement dated 15 October 1998 (as amended), Ziggus Holdings Ltd entered into a consulting agreement with the Company whereby consulting services would be provided by Dr. Geoffrey Vernon. The remuneration for services performed by Dr. Vernon on behalf of Ziggus Holdings Ltd to the Company is fixed at an annual gross fee of US$100,000. The Company is responsible for any deductions that may be required by law. The agreement is extended automatically annually, unless terminated by either party giving three months' notice.

5.12 All non-executive Directors (except for Peter Stalker III (as to which, please refer to paragraph 5.13 below) and Ehud Geller) have entered into written service agreements which set out that each such non-executive Director is entitled to an annual salary of £10,000 together with a payment of £1,000 for attendance at each board meeting and £500 for attendance at each committee meeting. In addition, the Company reimburses each non-executive Director for any reasonable out-of-pocket expenses. During and for three years after termination of appointment, the non-executive Director will observe the obligations of confidentiality which are attendant on the office of director. The appointment is to continue unless such non-executive Director terminates the agreement upon giving the Company not less that two months' written notice or the term of such non-executive Director ends under the terms of appointment. Ehud Geller does not have a written service agreement and does not receive any annual reimbursement.

5.13 Peter Stalker III has entered into a written service agreement with the Company, according to which, the Company has agreed, subject to approval at the next annual general meeting, to remunerate Peter Stalker III for his services as a non-executive Director of the Company, in lieu of the remuneration granted to all non-executive Directors (as detailed in paragraph 5.12 above), by (a) a one-time grant of 60,000 options to purchase 60,000 Ordinary Shares, nominal value NIS 0.02 of the Company (the ''Options''), at an exercise price per such option equal to the average price per share, as quoted on the London Stock Exchange, in the three (3) days preceding 12 January 2004 (the date on which he joined the Board), such Options to vest over three (3) years so that upon the first, second and third anniversary of 12 January 2004, he shall be entitled to exercise 1/3 of the Options granted, provided that during such time he is still a member of the Board; and (b) payment of an annual salary equal to US$15,000, payable quarterly in four equal instalments, for the duration of the period he serves as a member of the Board.

5.14 Other than as set out in paragraph 5.7 above, there are no employment agreements with any of the Directors with a notice or contract period of one year or more or with provisions for predetermining compensation on termination of an amount which equals or exceeds one year's salary and benefits in kind.

5.15 The aggregate remuneration paid and benefits in kind of any description whatsoever granted to the Directors by members of the Group for the financial year ended 31 December 2003 amounted to US$1,093,000 including pension contributions and other benefits.

5.16 There are no outstanding loans granted by any member of the Group to any Director nor has any guarantee been provided by any member of the Group for their benefit.

5.17 The estimated total amount payable to the Directors by any member of the Group for the current financial year under the arrangements in force at the date of this document including pension contributions and other benefits is US$1,190,000.

5.18 No Director has any interest in any transaction which is or was unusual in its nature or conditions or is or was significant in relation to the business of the Group and which was effected by the Company during the current or immediately preceding financial year or during any earlier financial year and remains in any respect outstanding or unperformed.

5.19 Under section 278 of the Israeli Act, no Director who has any personal interest in any proposal, arrangement or contract may vote on such proposal, arrangement or contract at any meeting of the Board or meeting of the Audit or Remuneration Committee of the Board.

5.20 In the five years preceding the date of this document, the following Directors are or have been directors or partners of the following companies or partnerships (excluding the subsidiaries of any company listed below):

Director	*Current Directorships*	*Former Directorships*
Geoffrey Vernon	Advanced Medical Solutions plc Ziggus Holdings Ltd Talia Technology Ltd Bionex Investments plc Medisys plc Ketocytonics Inc BMR Ltd MorphoSys AG Bioniche Pharma Group XL Techgroup plc XL TechGroup, LLC	Develogen Ag InterCell Ag Ark Therapeutics Ltd Drug Abuse Sciences, Inc Drug Abuse Sciences SAS Peptor Ltd Arrow Therapeutics Ltd
Martin Becker	None	None
Jonathan Burgin	None	None
Shlomo Dagan	None	None
Glenn Kazo	Prolong Pharmaceuticals, Inc	iviGene Corporation
Elkan Gamzu	Pharmos Corporation Neurotech SA Hypnion, Inc BioPharm Analysis, LLC Descartes Therapeutics, Inc NeuroHealing Pharmaceuticals, Inc	Rho-ADDS SAS Clal Biotechnology Industries
Ehud Geller	Collgard Biopharmaceuticals Ltd Ester Neurosciences Ltd Argomed, Inc Medica Venture Partners LP InterCure Ltd AD Archimedes Ltd Geller Yozmot Ltd Orex Computed Radiography Ltd	Eltek Ltd
Peter Stalker III	Biogenex, Inc OSA Technologies Bourgeon Capital Management, LLC TSG Partners	None
Rusi Kathoke	BTG plc	None
Patricia Smith	Biomedical Research Ltd Paratek Pharmaceutical, Inc Hartshead Healthcare Ltd (UK)	None

5.21 Save for Medica Venture Partners LP which owns 2,374,020 Ordinary Shares in the Company and Ziggus Holdings Ltd which is the holder of 70,000 Ordinary Shares in the Company, none of the companies or partnerships referred to in paragraph 5.20 above are currently shareholders in the Company.

5.22 None of the Directors has:

(a) any unspent convictions in relation to indictable offences;

(b) at any time been adjudged bankrupt or at any time been a party to any form of individual voluntary arrangement;

(c) been subjected to any public criticism by any statutory or regulatory authority (including designated professional bodies);

(d) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company;

(e) been a director with an executive function of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director with an executive function or within the twelve months preceding such events;

(f) been a partner in a partnership which has been placed in compulsory liquidation or administration or entered into any partnership voluntary arrangement whilst he was a partner or within the twelve months preceding such events; or

(g) any asset which has been placed in receivership or been a partner of any partnership whose assets have been placed in receivership whilst he was a partner of such partnership or within the twelve months preceding such event.

5.23 In so far as is known to the Company, as at 30 June 2004 (being the latest practicable date prior to the publication of this document), the following persons (other than the Directors) were interested, directly or indirectly, in three *per cent* or more of the issued share capital of the Company:

	Immediately prior to Fundraising	*%*	*Immediately following Fundraising*[1]	*%*
Israel Healthcare Ventures Ltd	16,416,870	14.66	16,416,870	9.77
Perpetual Income & Growth Investment Trust plc	8,138,715	7.27	8,138,715	4.84
Julius Baer	5,309,500	4.74	5,309,500	3.16
Yeda Research & Development	4,699,930	4.20	4,699,930	2.80
Merlin Biosciences Fund LP	4,454,550	3.98	4,454,550	2.65
Inventech Investment Company	3,652,290	3.26	3,652,290	2.17

(1) Assuming no participation in the Fundraising.

Save as set out above and in paragraph 5.3, the Company is not aware of any person who is interested, directly or indirectly, in three *per cent* or more of the issued share capital of the Company.

5.24 The Company is not aware of any person who exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company.

5.25 Ronen Kantor, the Company Secretary, is the principal at Kantor & Co, solicitors to the Company in Israel, which provides legal services in the ordinary course of business to the Company (including in connection with the Fundraising), for which it receives payment. At the date of this document Mr. Kantor holds 53,180 Ordinary Shares which were purchased by him for cash in the market.

6. Share Option Schemes

The Company has issued to employees, key officers and Directors options to subscribe for up to 17,177,661 Ordinary Shares, assuming the conversion of all of the existing shares in the Company into Ordinary Shares under the five Share Option Schemes currently in place.

6.1 Share Option Scheme 1993

6.1.1 Under a share option scheme established in 1993 (the ''1993 Scheme''), the Company granted options to employees of the Company to subscribe at nominal value (NIS 0.02) for Common A Shares, 2,600 of which are outstanding. These options were granted in accordance with Section 102 of the Israeli Income Tax Ordinance 1961 (the ''Tax Ordinance''). The options are non-transferrable.

6.1.2 The 1993 Scheme terminated in August 2003 but any options granted thereunder and outstanding are still exercisable until May 2005. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The exercise price of the options is nominal value (NIS 0.02) per Ordinary Share. The options were granted for nil consideration. All options under the 1993 Scheme are fully vested.

6.2 Share Option Scheme 1998

6.2.1 Under a Share Option Scheme established in 1998 (the "1998 Scheme"), the Company granted options to a trustee under section 3(i) of the Tax Ordinance for the employees of the Company (including Directors who are employees), of which 3,561,780 are outstanding at an exercise price per share of US$0.365. The options are non-transferable.

6.2.2 The 1998 Scheme shall terminate in February 2007. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The options were granted for nil consideration and are fully vested.

6.3 Share Option Scheme 1999

6.3.1 Under a share option scheme established in 1999 (the "1999 Scheme"), the Company granted options to a trustee under section 3(i) of the Tax Ordinance for employees of the Company (including Directors who are employees), of which 6,395,880 are outstanding, at an exercise price of US$0.497. The options are non-transferable.

6.3.2 The 1999 Scheme shall terminate in August 2009. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The options were granted for nil consideration. All options are fully vested.

6.4 Share Option Scheme 2000

6.4.1 Under a share option scheme established in 2000 (the "2000 Scheme"), the Company granted options to a trustee under section 3(i) of the Tax Ordinance for employees of the Company (including Directors who are employees), of which 1,725,300 are outstanding, at an exercise price of US$1.100. The options are non-transferable.

6.4.2 The 2000 Scheme shall terminate in April 2010. If the options are not exercised and the shares not paid for by such date, all interests and rights of any grantee shall expire. The options were granted for nil consideration. All options are fully vested.

6.5 Share Option Scheme 2001

6.5.1 Under a share option scheme established in 2001 (the "2001 Scheme"), the Company granted options to employees of the Company (including Directors who are employees), of which 3,867,101 are outstanding at an exercise price per share between US$0.106 and US$0.931. These options were granted in accordance with section 102 of the Tax Ordinance, under the capital gains option set out in section 102(b)(2) of the ordinance. The options are non-transferable.

6.5.2 The 2001 Scheme will terminate in May 2011 (except as regards options outstanding at that date). The options were granted for nil consideration. All options vest on an annual basis for three years. To date, 1,855,925 options are vested.

7. Working Capital

The Company is of the opinion that, taking into account the net proceeds of the UK Placing, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

8. Subsidiaries and Investments

The Company is the holding company of the following subsidiary undertaking:

Name	*Registered Office*	*Field of Activity*	*Proportion of capital held*
XTL Biopharmaceuticals, Inc.	One Broadway, Suite 600, Cambridge, MA 02142, USA	Business Development, Clinical Trials and Product Development	100 *per cent*

The Company also holds 20 *per cent* of the issued and outstanding share capital of iviGene Corporation, a Delaware, United States incorporated company.

9. Principal Establishment

The principal establishment of the Group, which is leased, is as follows:

Address	*Expiry Date of Lease*	*Approximate size*
Kiryat Weizmann Science Park Building 3, 3 Hasapir Street, Rehovot 76100, Israel	31 December 2006	1,867 sq metres

10. Material Contracts

Other than as set out in this paragraph, there are no contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company or its subsidiary:

(i) within the two years immediately preceding the date of this document which are material; or

(ii) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

(a) The UK Placing and Open Offer Agreement dated 1 July 2004 between (1) the Company, (2) Code Securities and (3) Altium Capital, whereby Code Securities has agreed, subject to the terms and conditions set out therein, to procure placees to acquire 32,239,021 Shares at the Issue Price, and Altium Capital has agreed to underwrite the New Ordinary Shares which are the subject of the UK Placing at the Issue Price. The UK Placing and Open Offer Agreement is conditional upon, *inter alia*, the passing of Resolutions 1 and 2 contained in the notice of EGM set out at the end of this document and Admission taking place not later than 8.00 am on 3 August 2004 or such later date as Code Securities and Altium Capital may agree (but no later than midnight on 10 August 2004).

The UK Placing and Open Offer Agreement contains warranties given by the Company in favour of Code Securities and Altium Capital, which are usual for a document of this nature. In addition, the Company has agreed to indemnify Code Securities and Altium Capital in relation to certain liabilities it may incur in respect of the UK Placing or any arrangements contemplated by this document. Code Securities and Altium Capital have the right to terminate the UK Placing and Open Offer Agreement in certain circumstances, which include certain material and adverse changes in the condition (financial or otherwise), prospects or earnings of the Group as a whole or on the occurrence of certain force majeure events, all as more particularly set out in the UK Placing and Open Offer Agreement.

The Company has agreed to pay Code Securities (together with any applicable value added):

(i) a documentation and corporate finance advisory fee of £150,000;

(ii) a placing and underwriting commission of 2.5 *per cent* of the aggregate value at the Issue Price of all shares subscribed for or purchased pursuant to the UK Placing;

(iii) a sub-underwriting commission of:

(a) 0.5 *per cent* of the Issue Price of all shares subscribed for or purchased pursuant to the UK Placing;

(b) conditionally upon Admission, in respect of the 30 days following the date of the UK Placing and Open Offer Agreement, 0.75 *per cent* of the aggregate value at the Issue Price of all the New Ordinary Shares subscribed for pursuant to the UK Placing and subject to clawback by Qualifying Shareholders; and

(c) a further 0.125 *per cent* of the aggregate value at the Issue Price of all the New Ordinary Shares subscribed for pursuant to the UK Placing and subject to clawback by Qualifying Shareholders for each period of seven days or part thereof from (and including) the date 30 days after the date of the UK Placing and Open Offer Agreement to (and including) the earlier of (i) the date on which the UK Placing and Open Offer Agreement terminates and (ii) the date on which sub-underwriters are notified of their commitments thereunder.

The commissions and fee referred to above will not be payable by the Company if the UK Placing and Open Offer Agreement is terminated unless such termination arises by virtue of the default of the Company. In the event that the conditions precedent to the UK Placing and Open Offer Agreement are not satisfied then the documentation and corporate finance fee would become payable.

In addition, the Company has agreed to pay, *inter alia*, all costs and expenses of, or in connection with, Admission, the EGM and the Fundraising.

The Directors are mindful of the Competition Commission's recommendations with regard to competitive tendering of sub-underwriting commissions. However, the Directors believe that by virtue of the size of the Fundraising such a process would be unlikely to result in any significant benefit to the Company and that the commissions being offered to placees under the UK Placing are competitive and, as such, have not sought to offer the sub-underwriting for tender as to commissions payable.

(b) The US Placement Agent Agreement dated 30 June 2004 between (1) ThinkEquity and (2) the Company, pursuant to which the Company has engaged ThinkEquity to perform services as its exclusive placement agent in relation to the US Private Placement. Neither Altium Capital nor Code Securities is party to the US Placement Agent Agreement and neither Altium Capital nor Code Securities has any obligations or liabilities thereunder.

The agreement provides that the US Private Placement must not violate the requirements of the US Securities Act, including any exemption from the registration requirements. It contains customary representations and warranties from the Company in favour of ThinkEquity (for example, in relation to compliance with securities regulations). The agreement is deemed to have become effective as of 24 April 2004 and shall continue through to the earliest of (i) 180 days from such date, (ii) the date of the last closing of a US placement of New Ordinary Shares, or (iii) the termination of the agreement.

In relation to fees, the Company has agreed to pay or cause to be paid at each closing of a sale of New Ordinary Shares by the Company to a US accredited investor a transaction fee in cash equal to 6 *per cent* of the aggregate gross proceeds received by the Company from such closing (the ''Transaction Fee''), subject to reduction in certain circumstances.

If the Company decides not to sell New Ordinary Shares to a US accredited investor who/that has entered into a purchase agreement (other than for certain specified reasons), then in addition to any Transaction Fee payable in respect of such securities sold to such investor, if any, ThinkEquity shall be entitled to be paid an amount (the ''Agency Fee'') equal to 6 *per cent* of the aggregate price of the securities that the Company elected not to sell to such investor.

The agreement contains other provisions relating to the Transaction Fee that are customary for a document of its nature.

The Company has also agreed to pay ThinkEquity a non-refundable retainer of US$50,000 in cash payable immediately upon execution of the agreement. This retainer fee shall be credited against any Transaction Fee or Agency Fee.

In addition, the Company agrees to reimburse ThinkEquity upon request for reasonable expenses paid to third parties, provided however that the liability of the Company to reimburse such expenses shall not exceed US$100,000 without the Company's prior written approval. The expenses related to the indemnity contained in the letter (and referred to below) are not subject to this limitation.

The agreement contains indemnification provisions in favour of ThinkEquity that are customary for a document of this nature.

The agreement is governed by and shall be construed in accordance with the internal laws of the State of New York.

(c) The International Subscription Agreement, being the securities purchase agreement dated 30 June 2004 between (1) the Company and (2) Ronen Kantor Trustees Ltd., as Escrow Agent and (3) certain Israeli Institutional Investors qualifying under Supplement A of section 15A(b)(1) of the Israeli Securities Law, certain US accredited investors and certain of the Directors pursuant to which those persons have agreed, subject to the conditions set out in such agreement, to subscribe for, in aggregate, up to 23,770,711 New Ordinary Shares (of

which 2,399,470 New Ordinary Shares have been placed firm, and of which up to 21,371,241 New Ordinary Shares are subject to clawback under the Open Offer) at the Issue Price. The International Subscription Agreement is conditional upon, *inter alia,* Admission having occurred, and the UK Placing and Open Offer Agreement having become unconditional, and not having been terminated in accordance with its terms. Each Israeli Institutional Investor has made representations and given warranties in favour of the Company relating, *inter alia*, to its status as an Israeli Institutional Investor and each US investor has made representations and given warranties in favour of the Company relating, *inter alia*, to its status as a US accredited investor. The International Subscription Agreement contains representations and warranties from the Company in favour of the investors, and from the investors in favour of the Company, that are usual for a document of this nature, as well as provisions relating to when these are made that are also customary. The International Subscription Agreement also contains termination provisions that are usual for a document of this nature.

(d) The Israeli Placement Agent Agreement dated 30 June 2004 between (1) CLAL Finance Underwriters Limited (2) Apex Underwriting Ltd. and (3) the Company, pursuant to which the Company has engaged the Israeli Placement Agents to perform services as its exclusive placement agent in relation to the Israeli Private Placement. Neither Altium Capital nor Code Securities is party to the Israeli Placement Agent Agreement and neither Altium Capital nor Code Securities has any obligations or liabilities thereunder. The agreement provides that the Fundraising must not violate the requirements of the Israeli Securities Law. The Israeli Placement Agent Agreement is deemed to have become effective as of 30 June 2004 and shall continue through the earliest of (i) 180 days from such date, (ii) the date of the last closing of an Israeli placement of the New Ordinary Shares, or (iii) the termination of the Israeli Placement Agent Agreement [to be disucssed]. In relation to fees, the Company has agreed to pay or cause to be paid at each closing of a sale of New Ordinary Shares by the Company to an Israeli Institutional Investor a transaction fee (the ''Transaction Fee'') in cash equal to: (i) two and a half *per cent* (2.5%) of the first US$3 million of the aggregate amounts conditionally subscribed by Israeli Institutional Investors under the International Subscription Agreement (the ''Gross Proceeds'') and (ii) four and a half *per cent* (4.5%) of the Gross Proceeds in excess of US$3 million or in the event that the aggregate Gross Proceeds exceed US$5.5 million, then the Transaction Fee of the Gross Proceeds shall be equal to four and a half *per cent* (4.5%); provided that in the case of any sale of New Ordinary Shares in the UK Offering to any non-Israeli affiliate of an Israeli Institutional Investor, the Transaction Fee will be reduced by any underwriting fees and commissions paid by the Company to Code Securities or Altium Capital in respect of such New Ordinary Shares. Furthermore, immediately following Admission, the Company shall pay the Israeli Placement Agents (in accordance with the allocation specified by them to the Company in writing a corporate fee equal to US$315,000. In addition, the Company agrees to pay to the Israeli Placement Agents upon Admission an additional distribution commission in cash equal to (a) one half *per cent* (0.5%) of the aggregate value of all New Ordinary Shares subscribed for by Israeli Institutional Investors, and (b) conditional upon Admission, three quarters of a *per cent* (0.75%) of the aggregate value of all New Ordinary Shares subscribed for by Israeli Institutional Investors, subject to clawback to satisfy valid claims under the Open Offer, and (c) a further 0.125 *per cent* of the aggregate value of all New Ordinary Shares subscribed for by Israeli Institutional Investors, subject to clawback to satisfy valid claims under the Open Offer, for each period of seven (7) days or part thereof from (and including) the date thirty (30) days after the date of the International Subscription Agreement to (and including) the date on which the International Subscription Agreement terminates. The Company further agrees that if the Company enters into an International Subscription Agreement with an Israeli Institutional Investor, and all the conditions to its obligations to consummate the transactions contemplated by the International Subscription Agreement as set forth therein shall have been satisfied as to such Israeli Institutional Investor, and the Company elects (whether to clawback New Ordinary Shares so that they may be sold in the UK Offering or otherwise) not to sell any of such New Ordinary Shares to such investor pursuant to its signed International Subscription Agreement, then in addition to any Transaction Fee payable in respect of New Ordinary Shares sold to such investor, if any, the Israeli Placement Agents shall be entitled to be paid an amount (the ''Agency Fee'') equal to one half a *per cent* (0.5%) of the aggregate price of the New Ordinary Shares that the Company elected not to sell to such Israeli Institutional Investor. The Israeli Placement Agent Agreement contains other provisions relating to the Transaction Fee that are

customary for a document of its nature. In addition, the Company agrees to reimburse the Israeli Placement Agents upon request for reasonable expenses paid to third parties, provided however that the liability of the Company to reimburse such expenses shall not exceed NIS 5,000 without the Company's prior written approval. The expenses related to the indemnity contained in the letter (and referred to below) are not subject to this limitation. The agreement contains indemnification provisions in favour of the Israeli Placement Agents that are customary for a document of this nature. The agreement is governed by and shall be construed in accordance with the laws of the State of Israel.

(e) A research and licence agreement with Yeda dated 7 April 1993 (the "Initial Agreement"), under which Yeda has agreed to procure the continuance of certain research which had been commenced pursuant to an agreement dated 1 September 1992 between Yeda and Yeda Holdings, Inc. Yeda has granted the Company an exclusive worldwide licence to use the Trimera™ patent portfolio and to exclusively use the information derived from the performance of the research for the purposes specified in the agreement in any country where a licensed patent covers a product until the date on which the last licensed patent expires or in any other country 12 years from the first commercial transaction. Under the agreement, any assignment of the licence granted by Yeda requires Yeda's prior written consent. The Initial Agreement has undergone a number of amendments, one of the end results of which is that the Company shall pay to Yeda: a royalty of 3 *per cent* of all net sales received by the Company; 25 *per cent* of amounts received by the Company on net sales of third parties (less certain royalties payable by the Company to third parties), but no more than 3 *per cent* and no less than 1.5 *per cent* of such net sales; and 20 to 40 *per cent* on any receipts to the Company other than the Company's net sales or receipts on net sales made by third parties. Furthermore, such amendments have also changed the termination provisions, entitling Yeda to terminate the agreement if a certain minimum amount of royalties $100,000 or $200,000, depending on the year, are not paid to Yeda annually. In the most recent amendment of the Initial Agreement, in order to facilitate the grant of the licence by the Company to Cubist under the terms of the HepeX™-B Collaboration, Yeda received the right to receive at least 1.5 *per cent* of net sales of HepeX™-B by Cubist sub-licencees, regardless of the amount received by the Company from Cubist in respect of such sales.

11. Litigation

Neither the Company nor its subsidiary is or has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the twelve months preceding the date of this document, a significant effect on the Group's financial position.

12. Taxation

12.1 The following is a summary of the main UK tax consequences which will apply to Shareholders of the Company who are UK resident for tax purposes. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of shareholders. If you are in any doubt as to your own tax position, you should seek independent professional advice without delay.

12.1.1 Dividends

Dividends distributed by an Israeli company to non-Israeli residents are subject to a 25 *per cent* tax to be withheld at source (15 *per cent* in the case of dividends distributed from the taxable income attributable to an approved enterprise), unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the UK–Israel Tax Treaty, if such dividends are subject to tax in the UK, the maximum Israeli tax and withholding tax on such dividends paid to a resident of the UK shall not exceed 15 *per cent* of the gross amount of the dividends. The withheld tax is the final tax in Israel on dividends paid to non-residents who do not conduct a business in Israel.

Application of the reduced rate of withholding tax under the UK–Israel Tax Treaty generally requires the receipt of a certificate for the reduction of the withholding tax rate from the Israel Tax Authorities prior to the actual payment of dividend.

A non-resident of Israel, who has dividend income derived from or accrued in Israel, from which tax was withheld at the source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

The Company is not resident for tax purposes in the UK, and will not be obliged to make any withholding on account of UK tax on the payment of any dividends. UK resident individuals are generally subject to UK income tax on all their income, wherever that income arises. This applies to investment income as well as earned income. A UK resident individual will be liable to UK tax on the gross dividend paid by the Company, subject to relief for the Israeli withholding tax, with the provision that the relief cannot exceed the amount of UK tax payable on the dividend. One exception to the above general rule is that UK resident individual shareholders who are not domiciled in the UK for tax purposes will generally be subject to UK income tax on a dividend paid by the Company only if the dividend is remitted to the UK. The concept of remittance is complex, and those Shareholders who believe they may be UK tax resident but not domiciled in the UK for tax purposes should seek independent professional advice.

The amount of any net dividend received from the Company by a UK resident company together with the amount of Israeli withholding tax deducted at source will be aggregated in determining the amount which is subject to UK corporation tax. Israeli tax deducted at source on dividends paid by the Company to a UK resident company will generally be available as a credit against the UK corporation tax liability arising on the gross dividend. The credit in the UK for Israeli tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend.

A UK resident company may also seek relief for the underlying tax (borne by the Company and its subsidiaries on the profits out of which the dividend is paid) where the UK company controls directly or indirectly 10 *per cent* or more of the voting power in the Israeli company. Furthermore, the UK-Israel Tax Treaty contains a ''tax sparing'' clause enabling a UK corporation which controls directly or indirectly at least 10 *per cent* or more of the voting power in the Israeli company to seek relief for underlying Israeli tax which has been saved under certain specified provisions of Israeli law.

A UK resident company may choose, as an alternative, to treat any Israeli tax for which credit is available against UK corporation tax as a deduction against UK corporation tax payable. This may be beneficial where, for example, the UK company has insufficient UK taxable income against which the available credit can be set.

12.1.2 Israeli Estate and Gift Taxes

Israel does not currently impose taxes on inheritance or *bona fide* gifts. For transfer of assets by inheritance or gift that would normally be subject to capital gains tax or land appreciation tax, the recipient's tax cost basis and date of purchase are generally deemed to be the same as those for the transferor of the property.

12.1.3 Capital Gains Tax

An individual who is resident or ordinarily resident in the UK for tax purposes will be liable to capital gains tax on any chargeable gain made on a disposal of shares in the Company subject to the application of relevant reliefs and exemptions. For individuals, capital gains tax is charged at the rate equivalent to the applicable rate of income tax were the chargeable gain to be treated as their top slice of income. UK resident companies making a disposal of shares in the Company will be liable to corporation tax on any chargeable gain arising on such disposal.

Israeli law generally imposes a capital gains tax on the sale of securities and any other capital asset. The basic capital gains tax rate applicable to corporations effective until 31 December 2002 had been 36 *per cent*, and the maximum tax rate for individuals was 50 *per cent*. Effective 1 January 2003, the capital gains tax rate imposed upon sale of capital assets acquired after that date was reduced to 25 *per cent*; capital gains realised from assets acquired before that date are subject to a blended tax rate based on the relative periods of time before and after that date that the asset was held.

In addition, if the shares are traded on a recognised stock exchange (including the London Stock Exchange), gains on the sale of shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax provided such ordinary shares were purchased by such non-Israeli tax resident after such shares were initially listed for trading. Notwithstanding the foregoing, dealers in securities in Israel are taxed at regular tax rates applicable to business income.

The UK–Israel Tax Treaty exempts UK residents from Israeli capital gains tax in connection with such sale provided such gain are subject to tax in the UK. Certain other tax treaties to which Israel is a party also grant exemptions from Israeli capital gains taxes.

Any subscription by a UK resident Shareholder in the Company for New Ordinary Shares under the terms of the Open Offer, up to that Shareholder's individual entitlement, should be treated as a reorganisation of the Shareholder's existing holding of Ordinary Shares for UK capital gains tax purposes. Any subscription of New Ordinary Shares above that entitlement should be treated as a new acquisition for those purposes.

12.2 Stamp Duty

The Company is obligated under the Israeli Stamp Duty Act 1961 to pay one *per cent* of the proceeds of the Fundraising as stamp duty within 30 days from the issuance of the Ordinary Shares.

UK stamp duty is chargeable (at 0.5 *per cent* of the purchase price) on transfers of shares in the Company if a transfer document is executed in the UK or relates to "any matter or thing done or to be done" in the UK. UK stamp duty reserve tax (at 0.5 *per cent* of the purchase price) is chargeable in respect of an agreement to transfer shares in the Company if they are registered in a register kept in the UK by or on behalf of the Company. To the extent that payment of stamp duty on a transfer executed pursuant to such an agreement is made, it will generally cancel this charge to stamp duty reserve tax. However, it should be noted that the Company has no present intention of establishing a register within the UK for the shares in the Company.

The above comments are intended as a general guide to the current position. Any person who is in any doubt as to his taxation position, and who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom should consult his professional advisers.

13. Significant Change

Pursuant to the HepeX^{TM}-B Collaboration with Cubist entered into on 2 June 2004, Cubist will be responsible for the future development and financing of HepeX^{TM}-B required for registration of the product. Under the terms of the agreement, XTLbio received an up front non-refundable payment of $1 million, and expects to receive a further $2 million by the end of 2005. An additional $3 million will be received subject to the achievement of certain resolutions by the product. XTLbio will also receive up to 17 *per cent* royalties on sales of HepeX^{TM}-B made by Cubist. Details of the agreement are set out in "Licensing and Collaborative Effects" in Part III of this document. Save as set out above, there has been no significant change in the financial or trading position of the Group since 31 December 2003, being the end of the last financial period for which audited financial statements of the Group have been published.

14. Market Price

The following table shows the closing middle market price for an Ordinary Share as derived from the Daily Official List for (a) the first dealing day in each of the six months prior to the date of this document and (b) the latest practicable dealing day before the publication of this document:

	Date	*Market Price (pence)*
(a)	2 January 2004	16.75
	2 February 2004	23.00
	1 March 2004	26.75
	1 April 2004	28.03
	4 May 2004	31.25
	1 June 2004	20.50
(b)	30 June 2004	19.25

15. Miscellaneous

15.1 The total costs and expenses relating to the Fundraising payable by the Company (including underwriting commissions which amount to £214,000) are estimated to amount to £1,346,000 (excluding VAT). The estimated net proceeds accruing to the Company from the Fundraising amount to approximately £8.5 million.

15.2 The auditors of the Company, Kesselman & Kesselman, chartered accountants and registered auditors (a member of PricewaterhouseCoopers International Limited), of Trade Tower, 25 Hamered Street, Tel Aviv 68125, Israel, have audited the accounts of the Company, for the three years ended 31 December 2003 in accordance with auditing standards generally accepted in Israel and in the United States. The auditors' reports on all of the annual accounts for the three years ended 31 December 2003 were unqualified.

The audit report with respect to the consolidated financial statements of the Company for the year ended 31 December 2003 contained the following emphasis of matter:

''As discussed in note 1a to the financial statements, continuation of the Company's current operations after utilising its current cash reserves during 2005, is dependent upon the generation of additional financial resources, either through agreements for the commercialisation of its product portfolio or through external financing.''

15.3 The UK Placing has been fully underwritten by Altium Capital. The Issue Price is payable in full in cash on acceptance.

15.4 Code Securities and Altium Capital have each given and not withdrawn their written consent to the inclusion herein of their names in the form and context in which they are respectively included.

15.5 The Registrars of the Company are Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, Channel Islands. The Receiving Agent for the Open Offer is Computershare Investor Services PLC.

16. Documents Available for Inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Jones Day 21 Tudor Street, London EC4Y 0DJ, United Kingdom and at the registered office of the Company from the date of this document until 30 July 2004:

(a) the Articles of Association of the Company;

(b) the published audited consolidated accounts of the Company for the three years ended 31 December 2001, 2002 and 2003;

(c) the employment and consulting agreements referred to in paragraphs 5.6 to 5.11 of this Part VI;

(d) the material contracts referred to in paragraph 10 of this Part VI; and

(e) the letters of consent referred to in paragraphs 15.4 of this Part VI.

1 July 2004

GLOSSARY OF SCIENTIFIC AND TECHNICAL TERMS

active hepatitis B	a state of hepatitis caused by hepatitis B virus in which the virus is in replicating form
adefovir	a drug used to treat vital infections
affinity	a measure of the binding strength between an antigen and an antibody
AIDS	acquired immune deficiency syndrome
antibiotic	a drug used to treat bacterial infections
antibody (''Ab'')	a molecule produced by animals in response to an antigen that binds specifically with the antigen that induced its production
antigen	a molecule that induces the formation of antibody
assay	a quantitative or qualitative process used to measure or detect a particular substance
bacterial targets	components of bacteria which may serve as targets for drug development, for example, cell surface molecules and enzymes
cell immortalization	see ''immortalization''
chimera	an animal in which cells from genetically different species co-exist
DNA	(deoxyribonucleic acid) the molecule that encodes the genetic information. DNA is a double-stranded molecule held together by weak bonds between base pairs of nucleotides to form a double helix
drug candidate	a substance in preliminary testing which may be used in the treatment of disease following successful testing
EMEA	the European Medicines Agency
endogenous	originating within the organism
envelope protein	protein surrounding the nucleic acid of a virus
enzyme	a protein that acts as a catalyst to mediate and speed a specific chemical reaction
epitope	the portion of an antigen that combines with an antibody
escape mutant	a virus that has developed resistance to a certain drug due to a mutation in its genetic material
ex-vivo	biological phenomena that are made to occur in a laboratory within a tissue derived from an organism
FDA	the Food and Drug Administration, an agency within the US Public Health Service, which is a part of the Department of Health and Human Services
genome	the complete set of genes constituting the entire genetic information of an organism
genomic	of or pertaining to the genome
genotype	the internally coded, inheritable genetic information carried by an organism
gram-negative bacteria	a type of harmful bacteria with a particular type of cell wall which can be identified by gram staining
HBIg	hepatitis B immunoglobulin
HCIg	hepatitis C immunoglobulin

HIV	human immune-deficiency virus
HSV	herpes simplex virus
hMAb excess	an FDA-stipulated pharmacological target for achievement of hepatitis treatment
human monoclonal antibody (“hMAb”)	antibody directed to a single epitope on a target molecule that is derived from a single clone, and that is derived from a human lymphocyte
hybridomas	cell lines created *in vitro* by fusing two different cell types, usually lymphocytes, one of which is a tumor cell
hyperimmune	sera or immunoglobulin preparation containing a high titer of antibodies directed against a specific antigen
immortalization	introduction of genes into a cell causing it to divide by preventing aging and/or cell death
immuno-compromised	a state in which capability of the immune system has been reduced by drugs, radiation or disease
immunogen	any substance which can elicit the formation of specific antibodies.
immunoglobulin	an antibody. A protein produced by plasma cells and lymphocytes. Immunoglobulins are an essential part of the body’s immune system which attach to foreign substances, such as bacteria, and assist in destroying them
immunotherapy	treatment of or prophylaxis against disease by attempting to produce active or passive immunity
in vitro	biological phenomena that are made to occur in a laboratory in an artificial environment
in vivo	biological phenomena that occur or are observed occurring within the bodies of living organisms
Investigational New Drug (“IND”)	an application or submission required to be made to the FDA
knockout mice	mice that have been genetically modified by eliminating one or more of their genes
lamivudine	a drug used to treat viral infections including HIV and hepatitis
lead(s)	compounds that may be used in the treatment of disease, subject to the outcome of clinical testing
monoclonal antibody (“MAb”)	antibody directed to a single epitope on the target molecule
monotherapy	a therapeutic regimen consisting of a single drug
murine	of, or pertaining to, mice
nosocomial	originating or taking place in a hospital, acquired in a hospital, especially in reference to an infection
orphan drug (status)	a designation of the FDA or other regulatory authorities for certain drugs for rare diseases or conditions which typically provides for some period of exclusivity
pathogen	any disease producing organism
pegylated	polyethylene glycol (PEG)-modified drug. A drug is attached to PEG for better evasion of the body’s rejection and clearance mechanisms
peptide	a molecule composed of amino acids

phase 1 clinical trial	the assessment of the safety of a biologically active substance in volunteers
phase 2 clinical trial	the assessment in patients of a drug to determine dose range and preliminary efficacy
phase 3 clinical trials	definitive studies to determine efficacy and safety of a drug prior to marketing approval
polymerase	an enzyme that is involved with synthesis of RNA and DNA
polymerase inhibitor	a molecule that inhibits the action of a polymerase
prophylactic	a medication or treatment given to prevent development of disease
radiation chimera	a chimeric animal produced by radiation followed by transplantation of genetically different cells
RNA	short for ribonucleic acid. A chemical (specifically, a nucleic acid) similar to DNA but containing ribose rather than deoxyribose
serum (sera)	blood from which the fibrin and suspended material (such as cells) have been removed
sero-conversion	the production of antibodies in response to an antigen
spontaneous mutant	animal alteration in the genetic information of an animal that occurs spontaneously
staphylococcus epidermidis	a bacterium capable of infecting humans and causing severe illness
therapeutic	a substance used in the treatment of disease
vaccine	any preparation intended for the purpose of active immunological prophylaxis (e.g. preparations of killed or attenuated microbes or microbial, fungal, plant, protozoan or metazoan derivatives or products)
viral load	the amount (titre) of viral particles in the blood of a host
viremia	the presence of a virus in the blood of a host

XTL Biopharmaceuticals Ltd.

(incorporated and registered in the State of Israel under the Companies Ordinance [New Version] – 1983 with registered number 52-003947-0)

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at the offices of Jones Day, 21 Tudor Street, London EC4Y 0DJ at 10.00 am on 2 August for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTION

1. THAT, for the purposes of Article 6.3 of the Articles of Association of the Company (the ''Articles''), the directors of the Company be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the UK Companies Act 1985 (the ''Act'')) up to an aggregate nominal amount of NIS 1,120,195 in substitution for all existing such authorities previously conferred on the directors of the Company which are hereby revoked but without prejudice to any allotment, offer or agreement already made pursuant thereto or in reliance thereon, provided that this authority shall expire 15 months after the passing of this Resolution or, if earlier, the conclusion of the next annual general meeting of the Company but may be previously revoked or varied from time to time by the Company in general meeting, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance to any such offer or agreement as if the authority conferred by this Resolution had not expired.

SPECIAL RESOLUTION

2. THAT, subject to and conditional upon the UK Placing and Open Offer Agreement (as defined in the prospectus dated 30 June 2004 of which this notice of EGM forms part (the ''Prospectus'')) becoming unconditional (save only as regards the passing of this Resolution and to Admission (each term as defined in the Prospectus)) and not being terminated in accordance with its terms on or before 10 August 2004 (the ''Condition Precedent''), the directors of the Company be and are hereby empowered, pursuant to Section 6.4 of the Articles and the general authority conferred by Resolution 1, to allot equity securities (as defined in section 94 of the Act) for cash up to an aggregate nominal amount of NIS 1,120,195 in connection with the Fundraising (as such term is defined in the Prospectus).

ORDINARY RESOLUTIONS

3. THAT, subject to the occurrence of the Condition Precedent, the grant to Peter Stalker III, a director of the Company, of 315,270 Ordinary Shares of the Company in consideration for the payment of the Issue Price (as defined in the Prospectus) per each such Ordinary Share is hereby approved.

4. THAT, subject to the occurrence of the Condition Precedent, the grant to Elkan Gamzu, a director of the Company, of 78,817 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

5. THAT, subject to the occurrence of the Condition Precedent, the grant to Patricia Smith, a director of the Company, of 15,763 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

6. THAT, subject to the occurrence of the Condition Precedent, the grant to Martin Becker, a director of the Company, of 15,763 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

7. THAT, subject to the occurrence of the Condition Precedent, the grant to Geoffrey N. Vernon, a director of the Company, of 30,000 Ordinary Shares of the Company in consideration for the payment of the Issue Price per each such Ordinary Share is hereby approved.

REGISTERED OFFICE:

Kiryat Weizmann Science Park
Building 3, Hasapir Street
PO Box 370
Rehovot 76100
Israel

By order of the Board

R.Kantor

Secretary

Notes:

1. A shareholder who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy for use at the meeting, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands (or, by hand only, at Computershare Investor Services PLC, 7th Floor Jupiter House, Triton Court, 14 Finsbury Square, London EC2A 1BR, at least 48 hours before the time for holding the meeting.
3. Completion and return of a form of proxy will not preclude a shareholder from attending and voting at the meeting in person if he subsequently decides to do so.

PART II

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your shares in XTL Biopharmaceuticals Ltd ("**XTLbio**" or the "**Company**"), please forward this document, together with the accompanying form of proxy, as soon as practicable to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

XTLbio

Conquering hepatitis C in our time

(incorporated and registered in the State of Israel under the Israeli Companies Law – 1999 with registered number 52-003947-0)

Authority to Allot Shares and Dis-application of Pre-emption Rights of up to 10% of the existing issued share capital

Receipt of Financial Statements for 31 December 2003

Appointment of Independent Auditors

Appointment of Directors

and

Approval of Directors Remuneration

Notice of an annual general meeting of XTLbio (the "**Annual General Meeting**"), to be held at the offices of Jones Day, 21 Tudor Street, London EC4Y 0DJ, United Kingdom at 12 noon (London Time) on 13 September 2004 is set out at the end of this document. Shareholders will find enclosed a proxy card for use at the Annual General Meeting. The proxy card should be completed and returned to the at the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands (or, by hand only, at Computershare Investor Services PLC, 68 Upper Thames Street, Vintner's Place, London, EC4V 3B, in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received no later than 12 noon (London time) on 11 September 2004.

CONTENTS

PART 1

LETTER FROM THE CHAIRMAN OF XTL BIOPHARMACEUTICALS LTD

(Incorporated and registered in the State of Israel under the Israeli Companies Law – 1999
Registered number 52-003947-0)

Directors:

Geoffrey Nicholas Vernon, PhD, MBA (Chairman)
Martin Becker, PhD
Jonathan Burgin, CPA, MBA
Shlomo Dagan, PhD
Elkan Raphael Gamzu, PhD
Ehud Geller, PhD
Rusi Kaikhushroo Kathoke, FCA
Glenn Michael Kazo, MSc
Patricia Anne Smith, MD
Peter Stalker, III

Registered Office:

Kiryat Weizmann Science Park
Building 3, PO Box 370
Rehovot 76100
Israel

12 August 2004

*To holders of ordinary shares in XTL Biopharmaceuticals Ltd ("**XTLbio**" or the "**Company**") and, for information only, to participants in the Company's share option schemes*

Dear Shareholder,

ANNUAL GENERAL MEETING ("AGM")

The Company's Annual General Meeting has been convened for 13 September 2004 at Jones Day, 21 Tudor Street, London EC4Y 0DJ. At this meeting the following items of ordinary business will be considered:

- The granting of authority to the Directors to issue new shares in the Company;
- The dis-application of pre-emption rights in relation to an amount equal to ten per cent of the Company's current issued share capital;
- Receipt of the financial statements of the Company for the year ended 31 December 2003 (a copy of which is enclosed together with this document);
- Re-appointment of Kesselman & Kesselman (a member of PricewaterhouseCoopers International Limited) as the auditors of the Company for the year ending 31 December 2004;

- Re-appointment of those Directors standing for re-election; and
- Approval of the remuneration of Directors

Some of these matters are explained in greater detail below

Resolution 1 – Power to allot shares representing up to a third of the current issued share capital

Resolution 1 proposes granting the Directors general authority to allot upto 56,009,973 Ordinary Shares not exceeding a nominal value of NIS 1,120,199.46. This is a general enabling power granted by article 6.3 of the Company's Articles of Association to enable the Company to issue shares in accordance with the provisions of the Articles without holding an Extraordinary General Meeting. The Articles require this power to be renewed at each AGM. Any issuances of such shares for cash would be subject to shareholder's existing rights of pre-emption (as modified by Resolution 2 referred to below). Any issuances of such shares for non-cash consideration would not be subject to pre-emption. Except pursuant to the exercise of options the Directors have no present intention of exercising this authority.

Resolution 2 – Power to allot some of the shares approved under Resolution 1 and disapply pre-emption rights of upto 10% of the current issued share capital in certain circumstances

Resolution 2 is a special resolution which, conditional upon the passing of Resolution 1, seeks to provide the Directors with specific authority to allot and issue for cash only up to16,802,920 ordinary shares representing 10% of the current issued share capital of the Company in accordance with the Company's Articles of Association and to dis-apply pre-emption rights in respect of such shares. Although the norm for UK listed companies is to obtain shareholder approval to allot up to 5% of the current issued capital, the Directors believe that in this case this level of authority is appropriate and necessary in this case in order to provide them with the flexibility to offer equity participation to any strategic partners in concluding any future commercial transactions for the further development and commercialisation of the Company's technologies. It should be noted that this power only applies if Resolution 1 is passed and will lapse unless it is exercised prior to the 2005 AGM.

Resolutions 5–8 Re-election of Directors

Under Israeli law, Directors are required to stand for re-election at each AGM. Rusi Kathoke and Patricia Smith, current directors of the Company, have been appointed as "External Directors" (as such term is defined in the Israeli Companies Act – 1999) until 5 December, 2006, and therefore do not need to be re-appointed. Ehud Geller who has served as a non-executive director since May 1996 has decided to step down from the Board due to other commitments relating to the management of the Medica Ventures Fund and the Company would like to take this opportunity to thank Ehud Geller for his contribution to the Board and the Company during his period of office.

The Board has reviewed its composition and has decided to adopt a structure that is more in keeping with US and Israeli practice by increasing the complement of non-executive directors' to provide greater emphasis on influencing the strategic direction of the Company whilst leaving operating decisions and processes with the existing management team. Accordingly, if the resolutions regarding the re-appointment of directors are approved, the new Board would comprise Martin Becker, the Chief Executive Officer and five non-executive directors. The current executives would report to the Board through the Chief Executive Officer.

Resolutions 5 to 8 therefore propose the re-appointment of Martin Becker, Geoffrey Vernon, Elkan Gamzu and Peter Stalker as directors of the Company. Jonathan Burgin, Shlomo Dagan and Glenn Kazo will not be seeking re-election to the Board.

Resolutions 9 – 11 – Remuneration of Directors

Resolution 9 proposes the grant to Peter Stalker III, who has joined the Board as a non-executive director during the current financial year, of stock options and the annual payment of US$15,000, payable quarterly in 4 equal installments during such time as he is a member of the Board of the Company, which shall be the sole remuneration he shall receive as a director of the Company.

Resolutions 10 and 11 propose the award of share options and the grant of a special bonus to Martin Becker to reflect the successful completion of the Company's recent fundraising and the establishment of a commercial agreement with Cubist Pharmaceuticals, Inc. for the licensing and development of the Company's HepeX™-B product. The share options granted hereunder shall be subject to the performance criteria detailed in Exhibit A attached hereto that has been approved by the Board. The Board anticipates that new long term performance criteria shall be proposed for all members of management for future option allocations.

You will find set out at the end of this document a notice convening the Annual General Meeting of the Company to be held at the offices of Jones Day, 21 Tudor Street, London, EC4Y 0DJ at 12 noon (London time) on 13 September 2004.

A proxy card for use at the Annual General Meeting is enclosed. The proxy card should be completed and returned to the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands (or, by hand only, at Computershare Investor Services PLC, 68 Upper Thames Street, Vintner's Place, London, EC4V 3B, in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received no later than 12 noon (London time) on 11 September 2004. If you need assistance in communicating with your nominee (for nominee banks that are not a direct shareholder) or in filling out the proxy forms, please contact Georgeson

Shareholder Communications, Inc., a Computershare plc company, Mr. Domenic Brancati, whose details are provided below.
Phone: +44 (0) 870 703 6357
Fax: +44 (0) 870 703 6159
Email: domenic.brancati@computershare.co.uk.

Your attention is drawn to Part 2 of this document which provides additional information on the matters referred to above.

Yours sincerely,

Geoffrey Vernon
Chairman

PART 2

ADDITIONAL INFORMATION

1. Responsibility

The Directors whose names are set out on page 3 above accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Details of Directors Seeking Re-appointment and Details of External Directors

Geoffrey N. Vernon, PhD, BPharm, MBA, ChDir
Non-Executive Chairman

Dr. Vernon has been the Chairman of XTLbio since 1998 and a Director since September 1996. He is a former executive director of Rothschild Asset Management Ltd., partner of the venture capital group Advent Limited, and has over 20 years' experience in healthcare and life sciences. Dr. Vernon is chairman and/or non-executive director of a number of quoted and privately owned companies in the UK, US, Germany, Ireland and Israel. He is also a Fellow of the Institute of Directors and one of the first Directors in the UK to be admitted as a Chartered Director.

Martin Becker, PhD
President and Chief Executive Officer

Dr. Becker has been with XTLbio since 1994. Before joining the Company he served as Vice President of Technology, Corporate Business Development, at Syntex Corporation (now Roche Bioscience). From 1980 to 1992, Dr. Becker held various research management positions at Syva Company, the diagnostic subsidiary of Syntex where his last position was Senior Director of Biological Research. In the context of his research position, Dr. Becker was a named inventor on 14 patents covering a wide range of medical diagnostic technologies. Dr. Becker's doctorate in immunology was received from the Weizmann Institute of Science.

Elkan R. Gamzu, PhD
Non-executive Director

Dr. Gamzu is the principal of enERGetics Biopharmaceutical Consultancy, LLC, a consultancy serving the biotechnology and pharmaceutical industries. As former Vice President of Drug Development at Parke-Davis, Dr. Gamzu was responsible for the clinical and regulatory development of the first drug for the treatment of Alzheimer's Disease to be approved by the US Federal Drug Administration. In addition, he was previously President and Chief Executive Officer of Cambridge NeuroScience, Inc. and also held research management positions in drug discovery with Hoffmann-LaRoche, Inc. Dr. Gamzu is a director of a number of companies in the USA, Israel and France.

Rusi K. Kathoke, FCA
Non-executive & External Director

Mr. Kathoke, who is a Chartered Accountant, has been a Director of XTLbio since December 2000. As the Chief Financial Officer of BTG plc since 1986, Mr. Kathoke was responsible for negotiating BTG's employee and management buyout in 1992, for managing its subsequent listing on the London Stock Exchange in 1995, demerging and listing a subsidiary in 1998 and raising further funds from institutional investors. BTG, which is based in London and Philadelphia, finds, develops and commercialises technologies, many of which are in the life sciences field. Mr. Kathoke therefore has over 20 years of experience in investing in technology, managing early and development stage companies, in fund raising and in realising value through the creation, protection and commercialisation of intellectual property. He is also a trustee of the Triangle Trust, a charitable foundation established to assist the disabled and disadvantaged.

Patricia A. Smith, B Med Sc., BM BS, MRCP(UK) Dip Pharm Med
Non-executive & External Director

Dr. Smith has been a Director of XTLbio since December 2000. Dr. Smith was a practising physician in hospital cardiology and general medicine for several years before entering the pharmaceutical industry. She has held senior positions in international clinical development and international marketing at Zeneca plc and gained experience in business development and business planning. In 1997, she left her role as UK Marketing Director at Zeneca having been involved in 11 drug registrations and product launches in three years, with annual sales of £125 million, to establish an independent healthcare consultancy working with biotechnology companies, big pharma and investment banks to evaluate healthcare opportunities. Dr. Smith is a director of Bio-Medical Research Ltd, an Irish company that designs and distributes EMS, TENS and fitness equipment and she is CEO of their consumer division (Slendertone). She is also a director of Paratek Pharmaceuticals (USA), an antibiotic development company. Dr. Smith is a member of the Royal College of Physicians (UK).

Peter Stalker III, AB
Non-executive Director

Mr. Stalker has been a Director of XTLbio since January 2004. Mr. Stalker was formerly a Managing Director at E. M. Warburg Pincus and Co. Inc., one of the largest private equity and venture capital firms in the world. During his tenure from 1984 to 1998, he was responsible for overseeing venture-banking investments in the biotechnology, pharmaceutical and specialty chemical industries. In this capacity, Mr. Stalker worked closely with the managements of over 30 portfolio companies, overseeing both private and public financings for more than a dozen biotechnology companies. Currently, Mr. Stalker serves as a director of several privately held companies including OpenSource Asia and Biogenex. In addition, he is actively engaged on the board of a number of national and local not-for-profit organisations including The National Alliance for Hispanic Health, where he is treasurer and member of the executive committee, and the Connecticut chapter of The Nature Conservancy.

3. Documents available for Inspection

The following documents will be available for inspection at the registered office of the Company during normal business hours on any business day (Fridays, Saturdays and public holidays excluded) up to and including the date of the Annual General Meeting and also at Jones Day, 21 Tudor Street, London EC4Y 0DJ during normal business hours on any business day (Saturdays, Sundays and public holidays excluded) up to and including the date of the Annual General Meeting:

(a) the current Articles of Association of the Company;

(b) the service agreements of the Directors;

(c) the rules of the Company's share option schemes; and

(d) the financial statements of the Company for the financial year ended 31 December 2003.

Notice of Annual General Meeting

XTL Biopharmaceuticals Ltd

(incorporated and registered in the State of Israel under the Israeli Companies Law - 1999 with registered number 52-003947-0)

Notice is hereby given that the Annual General Meeting (the "**Meeting**") of XTL Biopharmaceuticals Ltd. ("**XTLbio**" or the "**Company**") will be held at Jones Day, 21 Tudor Street, London, England at 12:00 noon (London Time) on 13 September 2004, to consider, and if thought fit, to pass the following resolutions of which resolution numbered 2 will be proposed as a special resolution and the resolutions numbered 1 and 3 to 11 will be proposed as ordinary resolutions:

Ordinary Resolution

1. THAT the Directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Article 6.3 of the Company's Articles of Association (and to the exclusion of and in substitution for any existing power to allot relevant securities) to allot relevant securities to an aggregate nominal value not exceeding NIS 1,120,199.46 (being 56,009,973 Ordinary Shares) provided that this authority shall expire (unless previously renewed, varied or abrogated by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company save that the Company may at any time prior to such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors be and are hereby authorised to allot relevant securities in pursuance of such offer or agreement as if this authority had not expired.

Special Resolution

2. THAT subject to the passing of Resolution number 1, the Directors be and are hereby empowered pursuant to and in accordance with Article 6.4 of the Company's Articles of Association to allot equity securities for cash (otherwise than in connection with, and in addition to, a Pro Rata Offer as defined below) up to an aggregate nominal amount not exceeding NIS 336,058.40 (being 16,802,920 Ordinary Shares NIS 0.02 each of the Company (the "**Ordinary Shares**") representing approximately ten per cent (10%) of the issued share capital of the Company at the date of this notice), and shall expire on the conclusion of the next Annual General Meeting after the passing of this Resolution, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors be and are hereby empowered to allot equity securities in pursuance of any such offer or agreement notwithstanding that the power hereby conferred has expired.

   "**Pro Rata Offer**" shall for the purposes of this Resolution mean an offer of equity securities open for acceptance for a period fixed by the Directors to holders of Ordinary Shares in proportion (or as nearly as may be practicable) to

their respective holdings of such Ordinary Shares on the register on a fixed record date, but subject to such exclusions or other arrangements as the Directors may consider necessary or expedient in relation to fractional entitlements or on account of any legal or practical requirement or problems under the laws of any such territory, or the requirements of any recognised regulatory body or stock exchange.

Ordinary Resolutions

3. THAT the Annual Report and Accounts of the Company for the year ended 31 December 2003 (the "**Report**"), be and they are hereby received.

4. THAT Kesselman & Kesselman (a member of PricewaterhouseCoopers International Limited.), be and are hereby appointed, as the Company's independent auditors for the financial year ending 31 December 2004 and that the Board of Directors be and are hereby authorised to agree the level of remuneration of the auditors in accordance with the volume and nature of their services.

5. THAT Martin Becker be and is hereby re-appointed as a Director of the Company until the closing of the next annual general meeting.

6. THAT Elkan Gamzu be and is hereby re-appointed as a Director of the Company until the closing of the next annual general meeting.

7. THAT Geoffrey Vernon be and is hereby re-appointed as a Director of the Company until the closing of the next annual general meeting.

8. THAT Peter Stalker be and is hereby appointed as a Director of the Company until the closing of the next annual general meeting.

9. THAT as sole remuneration for his services as a non-executive director of the Company, Peter Stalker be (a) granted 60,000 options to purchase 60,000 Ordinary Shares, nominal value NIS 0.02 of the Company (the "**Options**"), at an exercise price per such option equal to the average price per share, as derived from the Daily Official List of the London Stock Exchange, in the three (3) days preceding 12 January, 2004 (the date on which he joined the Board) being 16.5 pence, all such options to be issued under the Stock Option Plan-2001 and to vest over three (3) years so that upon the first, second and third anniversary of 12 January, 2004, he shall be entitled to exercise 1/3(one third) of the Options granted, provided that during such time he is still a member of the Board; and (b) paid an annual remuneration equal to US$15,000, payable quarterly in 4 equal installments during such time as he is a member of the Board of the Company.

10. THAT a grant to Martin Becker, effective as of 1 January 2004, of Options to purchase 300,000 Ordinary Shares of the Company at an exercise price equal to the average price per share of the Company's shares in the three business (3) days preceding the annual general meeting (the "**Price Per Share**"), all such

Options to be issued under the Stock Option Plan – 2001 and subject to the perfomance criteria detailed in Exhibit A attached hereto, be and is hereby approved.

11. THAT a (i) bonus proposed to be awarded to Martin Becker, in the amount of US$65,000, and (ii) an increase, as of January 1, 2004, of his annual salary from US$280,000 to US$300,000, be and are hereby approved.

By order of the Board
Ronen Kantor
Company Secretary

Registered Office:
Building 3
Kiryat Weizmann Science Park
Rehovot 76100
Israel

12 August 2004

Notes:

1 *Any shareholder holding shares of the Company on the close of business on [8] September 2004, shall be entitled to attend and vote at the Meeting. Such shareholder may appoint one or more proxies to attend and to vote instead of him or her. A proxy need not be a shareholder of the Company.*

2 *To be valid, an original form of proxy for use at the Meeting, duly signed and executed, together with any power of attorney (if any) or other authority under which it is signed (if any), or a notarially certified copy of such proxy, power or authority (as applicable), must be deposited at the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands (or, by hand only, at Computershare Investor Services PLC, 68 Upper Thames Street, Vintner's Place, London, EC4V 3B,, at least 48 hours before the time for holding the Meeting (12 noon (London Time) on 11 September 2004).*

3 *Completion and return of a form of proxy will not preclude a shareholder from attending and voting at the Meeting in person if he or she subsequently decides to do so.*

4 *The approval of all ordinary resolutions proposed at the Meeting shall require a majority vote at the Meeting.*

EXHIBIT A

PERFORMANCE CRITERIA

The Performance Criteria for the exercise of the Options to purchase shares granted to the Chief Executive Officer of the Company are the achievement of the following prior to 31 December, 2004:

1. Completion of the Phase 2 multi centre clinical trial of the Company's HepeX-C product in liver transplants;

2. Submit an Investigational New Drug (IND) application against the chronic Hepatitis C virus;

3. Receive approval of the Board of Directors of the Company for a co-development or other collaborative transaction regarding the Company's HepeX-C product.

The achievement of a specific Performance Criteria detailed above shall entitle the Chief Executive Officer of the Company the right to exercise up to one third of the Options granted to him in accordance with the Company's Stock Option Plan – 2001, with vesting to be calculated from 1 January 2004.

PART III

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your shares in XTL Biopharmaceuticals Ltd ("XTLbio" or "Company"), please send this document, together with the form or proxy enclosed, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

XTL Biopharmaceuticals Ltd

XTLbio
Conquering hepatitis C in our time

(Registered number 52-003947-00)

Notice of an Extraordinary General Meeting

Notice of the Extraordinary General Meeting of the Company to be held at **12.00 p.m.** (Israel Time) on **24 February 2005** at The Dan Tel Aviv Hotel, 99 Hayarkon St., Tel Aviv 63432, Israel is set out on page 19 of this document.

SHAREHOLDERS ARE ENCOURAGED TO PARTICIPATE IN PERSON AT THE MEETING.

A form of proxy or form of instruction, in the case of holders of depository interests, for use at this Extraordinary General Meeting is enclosed with this document. To be valid, the proxy card or form of instruction in the case of holders of depository interests, should be completed and returned to the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands (or, by hand only, at Computershare Investor Services PLC, Vintners' Place, 68 Upper Thames Street, London, EC4V 3BJ, UK), in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received with regard to the form of instruction, no later than **2.00 p.m.** (Israel Time) on **21 February 2005**, and with regard to the proxy, no later than **12.00 p.m.** (Israel Time) on **22 February 2005**. The record date for the determination of entitlements to participate and vote at the Extraordinary General Meeting is close of business on **11 February 2005**.

Contents

Timetable

Record date for determining entitlements to participate and vote at the Extraordinary General Meeting	Close of business on 11 February 2005
Latest time and date for receipt of forms of instruction for holders of depository interests	2.00 p.m. (Israel Time) on 21 February 2005
Last date for receipt of proxies for the Extraordinary General Meeting	12.00 p.m. (Israel Time) on 22 February 2005
Extraordinary General Meeting	12.00 p.m. (Israel Time) on 24 February 2005

PLEASE COMPLETE THE FORM OF PROXY THAT ACCOMPANIES THIS DOCUMENT. PLEASE RETURN THE COMPLETED FORM OF PROXY AS SOON AS POSSIBLE.

Definitions

The following definitions apply throughout this document, unless the context requires otherwise:

"Current Directors" or "Board"	Elkan Gamzu, Rusi Kathoke, Peter Stalker III, Patricia Smith, Geoffrey Vernon and Michael Weiss
"External Director"	means independent non-executive directors appointed in accordance with the Israeli Companies Act – 1999. The External Directors are Rusi Kathoke and Patricia Smith
"NIS"	New Israeli Shekels, the lawful currency in Israel
"Non-executive Directors"	the Board with the exception of Elkan Gamzu, interim Chief Executive Officer
"Ordinary Shares"	Ordinary shares of NIS 0.02 each in the capital of the Company
"UK Listing Authority" or the "UKLA"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of the Financial Services and Markets Act 2000 as amended from time to time
"UK Listing Rules"	the listing rules of the UKLA made pursuant to section 74(4) of the Financial Services and Markets Act 2000 and contained in the UK Listing Authority's publication of the same name

PART 1

LETTER FROM THE EXTERNAL DIRECTORS OF XTL BIOPHARMACEUTICALS LTD

(Incorporated and registered in the State of Israel under the Israeli Companies Law – 1999
Registered number 52-003947-0)

Directors:
Elkan Raphael Gamzu, PhD (Chairman)
Rustom Kaikhushroo Kathoke, FCA
Patricia Anne Smith, MD
Peter Stalker III
Geoffrey Nicholas Vernon, PhD, MBA
Michael Sean Weiss

Registered Office:
Kiryat Weizmann Science Park
Building 3, PO Box 370
Rehovot 76100
Israel

25 January 2005

To holders of ordinary shares in XTL Biopharmaceuticals Ltd ("XTLbio" or the "Company") and, for information only, to participants in the Company's share option schemes

Dear Shareholder,

CONVENING OF AN EXTRAORDINARY GENERAL MEETING: REQUISITION TO APPOINT THREE NEW MEMBERS TO THE BOARD; REMOVAL OF THREE CURRENT DIRECTORS; GRANT OF SHARE OPTIONS TO TWO NON EXECUTIVE DIRECTORS AND AMENDMENT OF THE ARTICLES

On 5 January 2005, Alex Rabinovitch (the "Requisitioner"), under authority from Roy Nominees Limited, a holder of 10.11% of the Company's issued share capital, wrote to the Board requiring the Company to convene an Extraordinary General Meeting ("EGM") at which certain resolutions be proposed to shareholders. On 11 January 2005 the Requisitioner wrote to the Board requesting one (1) additional resolution be proposed at the EGM.

The Requisitioner's resolutions state that three (3) new individuals should be appointed as Non-executive Directors of the Company, that three (3) current Non-executive Directors should be removed from their office as Directors of the Company, that two (2) Non-executive Directors should be granted options and that the Articles of Association of the Company ("the Articles") should be amended to enable new shares to be issued without the current pre-emptive requirement.

On the basis of various recent interviews given by the Requisitioner and reported in the press, the Requisitioner has indicated that the passing of his proposed resolutions, among other things, will facilitate the Company's listing on NASDAQ.

In keeping with its obligations under the UK Listing Rules (which would equally apply if the Company was listed on NASDAQ) this letter addresses the Requisitioner's proposals. Under

the Israeli Company Law, the Company must appoint two External Directors. Their role is to ensure good corporate governance of the Company. External Directors have no pre-existing relationship with the Company prior to their appointment and have a particular responsibility to fully represent the best interests of all shareholders with no conflicts of interest. Accordingly, as all other directors of the Board have a personal interest in one or more resolutions proposed; this letter has been issued by the External Directors.

The External Directors believe that the Requisitioner's proposals go beyond the simple matter of appointment, removal and remuneration of Directors and raise significant concerns about corporate governance of the Company. The External Directors are also aware that a significant number of the Company's shareholders are resident in Israel and may not have heard the Board's views on these proposals although several interviews with the Requisitioner have been published in the local press. The External Directors therefore urge shareholders to attend the EGM in person to hear the Requisitioner's proposals and to provide the Board with an opportunity to respond directly to shareholders on these proposals before shareholders cast their votes in respect of each of the proposed resolutions.

Summary of the External Directors' views

The External Directors oppose the Requisitioner's proposals for the following reasons:

- their general concerns regarding corporate governance for a publicly quoted company and the potential issues for the decision making process of the Board moving forward;
- significant unnecessary dilution of the Company's share capital should the proposal to grant large numbers of options to one (1) existing Non-executive Director and one (1) proposed Non-executive Director be agreed;
- removal of experienced and committed Non-executive Directors without reasonable justification; and
- difficulty in appointing a credible new Chief Executive Officer which the External Directors believe is an essential pre-requisite for a successful NASDAQ listing.

These issues and concerns are discussed in greater detail below.

NASDAQ Listing

On 6 September 2004 the Board announced its intention to pursue a NASDAQ listing of the Company's securities, and has already taken the following steps to effect such a NASDAQ listing:

- appointing Peter Stalker III, former Managing Director of E. M. Warburg Pincus and Co. Inc., New York, as a Non-executive Director in January 2004, with significant US investment banking experience;
- restructuring the Board to a US format, whereby the Directors are largely non-executive and a major part of the Board is comprised of US based directors with US public company experience;

- reducing the total number of Directors on the Board;

- progressing a recruitment process for a US based Chief Executive Officer with a proven track record; and

- pro-actively raising awareness amongst US investors of the Company's profile and impending listing.

Companies do not automatically qualify for a NASDAQ listing. Prior to any listing a company must satisfy a number of requirements. Some of these relate to the value of securities to be listed, others relate to the regulatory processes to be followed. Both of these cannot be completed in a short space of time. The External Directors believe that the Board is already progressing matters to obtain such a listing in the shortest reasonable timeframe and the Requisitioner's proposals will not add anything to facilitate, accelerate or improve the processes already underway.

Grant of Options to Directors

The Requisitioner has proposed that Michael Weiss, a Non-executive Director of the Company, and Ben Zion Weiner, one of the individuals proposed by the Requisitioner, to be appointed as a new Non-executive Director, be granted options to purchase 9,250,000 Ordinary Shares and 2,000,000 Ordinary Shares, respectively, at an exercise price of £0.20 per share. Details of such proposed grant and their terms are set out below.

The current remuneration of Non-executive Directors of the Company, which has been approved by shareholders since the listing of the Company's shares, falls into one of the following categories:

1. Cash-based Remuneration Package
   (a) An annual payment of £10,000 together with a payment of £1,000 for attendance at each board meeting and £500 for attendance at each committee meeting.
   (b) Reimbursement for any reasonable and out-of-pocket expenses.

2. Cash and Option-based Remuneration Package
   (a) An annual payment of US$15,000, payable in four (4) equal quarterly instalments, for the duration serving as a director.
   (b) One time grant of 60,000 options to purchase 60,000 ordinary shares, nominal value NIS 0.02 of the Company, at an exercise price equal to the average price per share quoted on the London Stock Exchange, in the three (3) days preceding such date of issuance, such options to vest over three (3) years, so that 1/3 of such options shall vest on the first, second and third anniversary of the date of issuance, provided that at such time the individual still continues as a director.
   (c) Reimbursement for any reasonable and out-of-pocket expenses.

The Board (excluding Michael Weiss) considers the aforementioned remuneration to Non-executive Directors to be fair and reasonable and within the acceptable corporate governance standards of remuneration of Non-executive Directors, especially given the relatively small size of the Company.

A summary of the Requisitioner's proposal is that the options to be granted to Michael Weiss and Ben Zion Weiner shall be exercisable for a period of five (5) years from the date of issuance at the Extraordinary General Meeting. The options will be granted in accordance with the terms and condition governing the Company's 2001 Stock Option Plan and will be subject to the terms and conditions thereof.

The options granted shall vest as follows: (a) 1/3 of the options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $150 million, as determined utilizing the Market Capitalization Formula (defined below); (b) 1/3 of the options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $250 million, as determined utilizing the Market Capitalization Formula; and (c) 1/3 of the options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $350 million, as determined utilizing the Market Capitalization Formula, provided that at each such vesting the relevant grantee is still a Director of the Company.

The "**Market Capitalization Formula**" shall be calculated as follows: the fully diluted shares (including shares attributable to all options, warrants, other purchase rights and convertible securities, which are in the money and including shares held by affiliates (collectively "**market capitalization shares**")) multiplied by the three (3) consecutive trading day average of the closing price of the Ordinary Shares as reported by NASDAQ (or such other exchange as such shares are then listed or in the good-faith determination of the board, if not then listed or quoted) plus long-term debt (as of any date) minus Working Capital (as defined below) and minus the aggregate exercise price of all options and warrants included in the market capitalization shares. The term "**Working Capital**" shall mean as of any date, (1) the current assets plus investment securities or cash equivalents thereof or similar assets that have maturities in excess of 12 months, minus (2) current liabilities.

The full terms of such options as proposed by the Requisitioner are:

*"The Company will grant the Directors (each a "**Grantee**") the Options to purchase Ordinary Shares, of nominal value NIS 0.02 each of the Company (the "**Shares**"), which options shall be exercisable for a period of five (5) years from the date of issuance at the Extraordinary Shareholders meeting. The Options will be granted in accordance with the terms and condition governing the Company's 2001 Stock Option Plan (the "**Plan**") and will be subject to the terms and conditions thereof; provided, however, that if any provisions hereunder are inconsistent with the terms and conditions of the Plan, the terms hereunder shall control. In accordance with the Plan, should any change be made to the Ordinary Shares by reason of any stock split, stock dividend, extraordinary cash dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Ordinary Shares as a class without the Company's receipt of consideration, appropriate adjustments shall be made to (A) the total number and/or class of securities subject to such options and (B) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement under such options.*

The Options granted to the Grantees shall vest as follows: (a) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $150 million, as determined utilizing the Market Capitalization Formula (defined below); (b) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $250 million, as determined utilizing the Market Capitalization Formula; and (c) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $350 million, as determined utilizing the Market Capitalization Formula, provided that at each such vesting the Grantees is still a Director of the Company.

With regard to any Grantee who is a resident of the US for tax purposes, these Options are intended to qualify as "incentive stock options" under section 422 of the Internal Revenue Code of 1986, as amended, to the extent allowable. The Grantee's shall be entitled to pay the exercise price of any or all of the Options described by any method set forth in the Plan and shall be allowed to satisfy any withholding obligations incurred on the exercise of such Options by electing to have option shares withheld upon such exercise. The Company shall use best efforts to cause all of the shares underlying such Options to be fully registered and freely tradable, including for resale without any limitations or restrictions, provided, however, that while the Grantees are Director's of the Company, each Grantee shall agree to abide by the trading restrictions that may be imposed upon such Grantee from time to time pursuant to any laws, statutes, rules or regulations to which the shares underlying the Options may be subject from time to time.

*The "**Market Capitalization Formula**" shall be calculated as follows: the fully diluted shares (including shares attributable to all options, warrants, other purchase rights and convertible securities, which are in the money and including shares held by affiliates (collectively "**market capitalization shares**")) multiplied by the three (3) consecutive trading day average of the closing price of the Ordinary Shares as reported by Nasdaq (or such other exchange as such shares are then listed or in the good-faith determination of the board, if not then listed or quoted) plus long-term debt (as of any date) minus Working Capital (as defined below) and minus the aggregate exercise price of all options and warrants included in the market capitalization shares. The term "**Working Capital**" shall mean as of any date, (1) the current assets plus investment securities or cash equivalents thereof or similar assets that have maturities in excess of 12 months, minus (2) current liabilities."*

Michael Weiss, who has an interest in one of the two resolutions proposed by the Requisitioner, has not participated in discussions concerning his own remuneration. He has however indicated his support for the proposed resolution 6 to grant options to Ben Zion Weiner. The Board, excluding Michael Weiss, have the following views on proposed resolutions 5 and 6:

- The proposal to grant two (2) Directors significant numbers of options on the terms proposed by the Requisitioner detracts from the Company's current standards of remuneration for Non-executive Directors. These are highly unusual remuneration packages for Non-executive Directors, amounting to 6.7% of the issued and outstanding share capital of the Company.

- Directors in receipt of such remuneration may be categorised as "non-independent" for the purpose of corporate governance codes of practice in the UK and the US. The combined code for corporate governance in the UK states that a board should include a balance of executive and Non-executive Directors and in particular "independent" Non-executive Directors such that no individual or small group of individuals can dominate. Under NASDAQ rules, a majority of the directors on a NASDAQ listed company are required to be "independent" meaning that such directors must not have a substantial financial interest in the company. If all of the Requisitioner's resolutions were approved at the EGM, two (2) out of the six (6) remaining Directors may not be considered independent. This may have implications for the Company's proposed NASDAQ listing and also for the ability of those Directors to participate in certain Board Committees, which are critical to the efficient functioning of any Board.

- Although Non-executive Directors have a valuable contribution to make, company performance and results are largely delivered by executive management. The granting of such a large number of options to Non-executive Directors may also act as a disincentive to recruiting a new Chief Executive Officer to the Company. In particular, the External Directors believe that the grant of 9,250,000 options to a

single Non-executive Director would be considered to be more in keeping with the level of options for a chief executive officer than for an individual with a non-executive role on the Board. In the view of the External Directors such a grant could make it extremely difficult to hire a qualified US-based Chief Executive Officer. In addition, the magnitude and the pricing of the proposed option packages might also be considered unfair to existing senior management executives and hinder the recruitment of new senior executives.

- The proposed discounting of the exercise price is inconsistent with the Company's policy on granting of options to employees and also to Non-executive Directors. The current Company policy as to the exercise price is the average price per share in the three (3) days preceding the date of issuance, as set out in the Company's employee stock option plan and as is consistent with UK best practices and substantially similar to US best practices. The External Directors consider this to be reasonable and appropriate. The Requisitioner's proposed exercise price was at a discount of 24 per cent to the share price of the Company at the date of the requisition, a level of discount which the External Directors view as highly favourable to the grantees of the options and highly dilutive to existing shareholders.

Under the UK Listing Rules the proposals set out in Resolution 5 and, subject to Resolution 1 being passed, Resolution 6 amount to "related party" transactions. Accordingly, under the Listing Rules the terms of the proposals require that prior to the grant of the options the board of the Company provide the UKLA with written confirmation from an independent adviser acceptable to the UKLA that the terms of the proposed transactions with the related parties are fair and reasonable so far as the shareholders of the Company are concerned (the "Related Party Confirmation"). **The UKLA has not been provided with such a Related Party Confirmation and in the absence of it the grant of the options would be prohibited under the UK Listing Rules.**

Appointment of New Directors and Removal of Current Directors

The Requisitioner has proposed the removal of Elkan Gamzu, Geoffrey Vernon and Peter Stalker III from the Board, effective as of the date of the EGM. Further the Requisitioner is requesting that Ben Zion Weiner, William James Kennedy and Jonathan Spicehandler be appointed as directors of the Company. Copies of the curriculum vitae of the proposed directors can be found in Part 2 of this document.

The External Directors believe that the existing board of XTLbio has a broad combination of skills, including a wealth of pharmaceutical and biotechnology industry experience, financial and management expertise and knowledge of the Company's operations which positions it very well to build on past successes and, crucially, to deliver real value from the Company's unique assets to its shareholders. Significant progress has been made in both the clinic and from a partnering perspective.

The Board welcomes nominations from shareholders with regard to individuals whose skills they believe would add value to the Company. However, in coming to a decision the Board is required to follow a proper selection process. In seeking to adhere to codes of conduct in the UK and the US, new candidates to be appointed meet with the Nominations Committee in order to ascertain their suitability, their potential contribution to the Board and the Company and to ensure that they have no conflicting interests. The selected candidates then meet with the remaining members of the Board and are then confirmed. In this particular instance, the

Board first heard of the proposed appointments when the Requisitioner tabled their appointment as one of the resolutions for this EGM. Therefore the Board's knowledge of these individuals extends only to the information contained within their curriculum vitae, which are attached in the "Additional Information" section of this document.

The External Directors are very concerned by the proposed process of the Requisitioner to appoint three (3) new individuals without any prior reference to the Board or its Nominations Committee. Because Board members carry equal legal responsibilities with other Directors serving together with them on the same Board, Nominations Committees are standard in publicly quoted companies. The Requisitioner has no such responsibilities, nor is accountable to the shareholders for any appointment. Therefore, the calling of an EGM to specifically over-ride a standard corporate governance process affecting the legal responsibilities of the Board is, in the opinion of all members of the Board other than Michael Weiss, highly irregular and raises concerns with the External Directors about the way in which such important decisions could be taken in the future if the Requisitioner's proposals were allowed to proceed unchallenged.

Whilst shareholders are entitled at a shareholder meeting to remove directors from office, the Board has been advised in writing by the Requisitioner that the current proposal to remove Elkan Gamzu, Geoffrey Vernon and Peter Stalker III as Directors stems from the Board and the Remuneration Committee's decision not to recommend the Requisitioner's request to the grant of options described above with the effect that, **despite any shareholder vote on this issue, the option grant would not be valid**. Directors' fiduciary duties are to act independently in the best interests of the Company and all of its shareholders, according to their own conscience and, based on their own belief, experience and specific knowledge of the Company. For the reasons stated above, the External Directors believe that the Board has acted in the best interests of the Company.

Geoffrey Vernon has notified the Company of his intention to resign from the Board immediately upon the completion of the Extraordinary General Meeting regardless of the outcome. Elkan Gamzu has a wealth of research and development experience in both the pharmaceutical and biotechnology industries, is US based, has served on other publicly quoted US Boards and has an in-depth understanding of the research and development programmes of XTLbio. Peter Stalker III has extensive US banking experience. We do not believe that removing these two (2) Directors from the Board is in the best interests of the Company and its shareholders.

Requisitioner's communication with the External Directors

As External Directors of the Company, we have also received a separate letter from the Requisitioner demanding that we disclose our position regarding the appointment of the three (3) new Directors and the granting of the proposed option packages to two (2) Directors. In the same letter he urges us to consider resignation from the Board prior to the upcoming EGM if we are not in agreement with his proposals, which he claims are supported by a majority of shareholders. It is stated that this would enable the proposal and appointment of two (2) new External Directors at the upcoming EGM and would negate the requirement for a further EGM to do the same.

In keeping with our fiduciary responsibilities and having special regard for our duties as External Directors, we do not believe that the appointment of an entirely new Board of Directors is in the best interests of the Company and its shareholders at this time. However,

the Requisitioner has indicated in a letter to the current members of the Board that he and other shareholders "shall deem each and every member of the Board who voted against the grant of options personally liable for any such additional expenditure and damage to the Company and, may in the future, request the Company to recover any such damages that will be incurred from the Board". Furthermore, in his letter to the External Directors the Requisitioner says, "…you should consider the ramifications of any decrease in the share price on the market that may result from your actions or inactions" in relation to our decision or otherwise to resign at or after the EGM. In our opinion, this threat of personal litigation is an unnecessary act of aggression and might be deemed as undue interference with our statutory responsibilities as Directors. The External Directors also believe that this approach raises significant issues about the direction of a public company if a shareholder, who has not otherwise obtained approval of the shareholder body as a whole, pressurises External Directors into resignation because they do not agree with him. We also believe that it also does not augur well for the independent role of Directors in decision-making processes within the Company if a dissatisfied shareholder seeks to replace an entire Board in this way.

Amendment of the Articles

The Board supports the proposed amendment of the Articles of Association to enable the issuance of shares without the current pre-emptive requirement so as to help facilitate a listing on NASDAQ. The effect of such amendment to the Articles is that the Board will be entitled to issue securities of the Company without first offering such securities to the shareholders of the Company. Notwithstanding such amendment to the Articles, the Company shall continue to be obligated to comply with the UK Listing Rules regarding the issuance of share capital, while the Company remains listed in the UK, regardless of amendments made to the Company's articles.

It is proposed that the following amendments be made to the Company's Articles of Association:

> That the existing Articles of Association of the Company be amended by the deletion of the existing Articles 6.1, 6.3 and 6.4 and the replacement therefore with the following:
>
> "6.1 The shares of the Company shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions, and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit."
>
> "6.3 Reserved."
>
> "6.4 Reserved.

Additional Resolutions proposed by the Board of Directors

In the light of the convening of the EGM and the resolutions proposed by the Requisitioner, the Board proposes two (2) further resolutions for consideration by shareholders at the EGM.

1. A further amendment of the Articles of Association so as to reduce the minimum number of directors on the Board from seven (7) to five (5) following the Board's decision that executive directors, excluding the Chief Executive Officer, should not serve on the Board of Directors. The reduction of the number of directors on the Board, by way of executive directors not serving on the Board, brings the Company more in line with a US style board consistency. The full text of the proposed amendment is as follows:
   "THAT the existing Articles of Association of the Company be amended by the amendment of Articles 26.1 and the replacement of the word "seven (7)" with the word "five (5)" so that following such amendment, Article 26.1 shall state the following:

   "26.1 Until such time as the General Meeting decides otherwise, the number of members of the Board of Directors shall be not less than five (5) and not more than twelve (12)."

2. To approve the remuneration of Elkan Gamzu, who volunteered to serve as the interim Chief Executive Officer and Chairman of the Board until such time as permanent successors are appointed. At present Dr. Gamzu, who is normally based in the US, is prevented from carrying out his regular full time consulting role with other companies there and therefore forfeits his normal income from such consulting activities to address XTLbio's business needs, which include frequent travel to Israel. Accordingly, the Board proposes that Elkan Gamzu should receive a monthly remuneration of US$25,000 for each month he serves as interim Chief Executive Officer (such amount to be pro rated for any parts of a month), effective as of 1 December 2004. This is the same as the cash remuneration paid to the former Chief Executive Officer. Elkan Gamzu will receive no benefits commensurate with the office and it is not proposed to pay him additional remuneration for his role as Interim Chairman.

Extraordinary General Meeting / Action to be taken

A notice convening the Extraordinary General Meeting of the Company to be held at 12.00 p.m. (Israel Time) on 24 February 2005 at The Dan Tel Aviv Hotel, 99 Hayarkon St., Tel Aviv 63432, Israel is set out at the end of this document.

RESOLUTIONS 1 TO 6 ARE OPPOSED BY THE EXTERNAL DIRECTORS

- Resolutions 1 to 3 seek to approve the appointment of Ben Zion Weiner, William Kennedy, and Jonathan Spicehandler, as Directors to the Board;
- Resolution 4 seeks to approve the removal of Elkan Gamzu, Geoffrey Vernon, and Peter Stalker III from their office as Directors of the Company;
- Resolution 5 seeks to approve the grant of certain share options to Michael Weiss, a Director of the Company; and

- Resolution 6 seeks to approve the grant of certain share options to Ben Zion Weiner, a proposed candidate to be appointed as a Director of the Company.

RESOLUTIONS 7 TO 9 ARE SUPPORTED BY THE EXTERNAL DIRECTORS

- Resolution 7 seeks to amend the Articles of Association of the Company to exclude the provisions relating to pre-emption rights and to provide a general authority to the Board to issue shares of the Company so as to provide the Company with greater flexibility to take advantage of fund-raising opportunities should they prove necessary;

- Resolution 8 seeks to amend the Articles of Association of the Company to reduce the minimum number of directors from seven (7) to five (5); and

- Resolution 9 seeks to approve the grant of certain remuneration to Elkan Gamzu, a Director of the Company, for the provision of his services as the interim Chief Executive Officer and Chairman.

Shareholders are urged, where possible, to attend and vote at the meeting in person. If this is not possible they may vote by proxy and are advised to take the following course of action to ensure that their views are represented at the meeting.

You will find enclosed a form of proxy (or Form of Instruction in the case of holders of Depository Interests) for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting, please complete and return the form of proxy to Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands; the form of instruction to Computershare Investor Service PLC, POB 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA, England; (or, by hand only, at Computershare Investor Services PLC, 68 Upper Thames Street, Vintners' Place, London, EC4V 3BJ, England) **as soon as possible** and, in any event, so as to be received with regard to the form of instruction, **no later than 2.00 p.m. (Israel Time) on 21 February 2005** and with regard to the proxy, **no later than 12.00 p.m. (Israel Time) on 22 February 2005. The Board of Directors has fixed 11 February 2005 as the "record date" for determining those shareholders entitled to participate and vote at the Extraordinary General Meeting.** If you need assistance in communicating with your nominee (for nominee banks that are not a direct shareholder) or in filling out the proxy forms, please contact Georgeson Shareholder Communications, Inc., a Computershare plc company, Mr. Stephen Lewis, whose details are provided below.

Phone: +44 (0) 870 703 0307

Fax: +44 (0) 870 703 0158

Email: stephen.lewis@computershare.co.uk.

Completion and return of a form of proxy will not preclude shareholders from attending and voting at the Extraordinary General Meeting, should they so wish.

Recommendations

The Directors (excluding Michael Weiss) do not believe that resolutions 1-4 are in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE AGAINST resolutions 1 to 4**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The Directors (excluding Michael Weiss, who did not participate in the Board decision on this matter) do not believe that resolution 5 is in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE AGAINST resolution 5**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The Directors (excluding Michael Weiss) do not believe that resolution 6 is in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE AGAINST resolution 6**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The Directors do believe that resolutions 7-8 are in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE FOR resolutions 7 and 8**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The majority of the Directors (excluding Elkan Gamzu, who did not participate in the Board decision on this matter) do believe that resolution 9 is in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE FOR resolution 9**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to four hundred and seventeen thousand three hundred and twenty seven shares representing approximately 0.25 per cent of the issued share capital of the Company.

Geoffrey Vernon has notified the Company of his intention to resign from the Board immediately upon the completion of the Extraordinary General Meeting irrespective of the outcome of resolution 4.

Michael Weiss has indicated to the Board that he is highly likely to resign from the Board if the Requisitioner's resolutions are not approved.

Elkan Gamzu and Peter Stalker III have indicated to the Board that they shall consider resigning from the Board even if Resolution 4 seeking to remove them from office is not approved but resolutions 1-3 and 5-6 are approved by the shareholders. They feel that these resolutions would undermine the role of the current Board in managing the Company and would have a significant bearing on the way in which Board decisions would be made in the future.

Yours faithfully,

Patricia Smith Rusi Kathoke

PART 2

ADDITIONAL INFORMATION

1. The Curriculum Vitae of the Proposed Directors.

Reproduced without adjustment in this section are the curriculum vitae of Ben Zion Weiner and William Kennedy as provided by the Requisitioner to the Company and the curriculum vitae of Jonathan Spicehandler as provided by himself to the Company The Directors have not verified nor confirmed the information contained herein.

"Dr. Ben Zion Weiner - Curriculum Vita

PERSONAL: *Born April 11, 1944 in Jerusalem, Israel.*

1972-1975: *Israeli army service in the central computer unit.*

POSITIONS:

1975-1980: *Deputy Manager for Research and Development Division of Teva Pharmaceutical Industries, Jerusalem.*

1980-1995: *Vice President, Research and Development of Teva Pharmaceutical Industries Ltd.*

1995-2002: *Corporate Vice President, Research and Development of Teva Pharmaceutical Industries Ltd.*

2002- Present: *Group Vice President, Global Products of Teva Pharmaceutical Industries Ltd. Responsibilities – Global Generic Research and Development, Global Innovative Research and Development, Innovative products marketing.*

Member of Teva Core management Committee.

EDUCATION:

1965-1968: *B.Sc. Degree in General Chemistry and Biochemistry, graduated with distinction at the Hebrew University, Jerusalem.*

1968-1970: *M.Sc. Degree in Organic Chemistry, graduated with distinction at the Hebrew University of Jerusalem. Thesis: "Synthesis of Polymers with Potential Biological Activity" under the supervision of Prof. A. Zilkha.*

1970-1974: *Ph.D. Degree at the Hebrew University, Jerusalem. Thesis: "Synthesis of Polymers with Potential Biological Activity" under the supervision of Prof. A. Zilkha.*

1974-1975: *Post-Doctorate at Schering Plough Corporation, Bloomfield, New-Jersey, U.S.A. on: "Exploratory work of new drugs, research in organic chemistry, and pharmacology".*

AWARDS:

1989: *Rothschild Prize for Innovation/Export for the development of alpha D_3 for Dialysis and Osteoporosis.*

1999: *Rothschild Prize for Innovation/Export for the development of Copaxone® for Multiple Sclerosis.*

WILLIAM J. KENNEDY, PhD

Pharmaceutical Consultant

EDUCATIONAL BACKGROUND

1975 Ph.D Degree in Pharmacology, Department of Pharmacology, Schools of Medicine and Dentistry, SUNY, Buffalo, NY

1969 MA Degree in Biology, Department of Biology, Clark University, Worcester, MA

1966 BS Degree in Biology, Siena College, Loudonville, NY

CAREER BACKGROUND

1999 to present Consultant to the Pharmaceutical Industry, Extraordinaryizing in Regulatory Affairs

1986 to 1999 Vice President, Drug Regulatory Affairs, Zeneca Pharmaceuticals Group, Wilmington, DE

1982 to 1986 Director, Drug Regulatory Affairs, G. D. Searle & Co., Skokie, IL

1981 to 1982 Director, Drug Regulatory Affairs, Kalipharma, Inc., Elizabeth, NJ

1980 to 1981 Assistant Director, Drug Regulatory Affairs, Berlex Laboratories, Inc., Cedar Knolls, NJ

1977 to 1980 Associate Director, Drug Regulatory Affairs, Pfizer Pharmaceuticals, New York, NY

1975 to 1977 Associate Research Professor, Research Staff, Radiobiology Laboratories, Department of Therapeutic Radiology, School of Medicine, Yale University, New Haven, CT

Jonathan R. Spicehandler, MD

Date of Birth	*December 8, 1948*
Education and Post-Graduate Training	*Union College, BA Biology, 1970*
	St. Louis University School of Medicine, MD cum laude, 1974
	Internship & Residency: *New York University Medical Center (1974-1976)*
	Fellowship: *New York University Medical Center, Infectious Diseases, Chief of Infectious Diseases – Dr. J. Rahal, Jr*
Board Certification:	*Diplomate of the National Board of Examiner (1975)*
	Diplomate of the American Board of Internal Medicine (1977)
	Board Qualified Infectious Diseases (1979)
Employment History:	
1982 – Present	***Schering-Plough Corporation***
	Kenilworth, NJ 07033
2002-Present	*Chairman, Schering-Plough Research Institute*
1993-2002	*President, Schering-Plough Research Institute*
1992-1993	*Vice President – Operations*
1991-1992	*Vice President Biological Research*
1987-1990	*Vice President Worldwide Clinical Research*
1985-1987	*Vice President Clinical Research*
1982-1985	*Senior Director, Immunology and Anti-Infective Clinical Research*
1979-1982	***Hoffmann-LaRoche***
	Nutley, NJ 07119
	Senior Research Physician – Anti Infectives
Professional Affiliations:	*Alpha Omega Alpha Honor Society (1973)*
	Board of Associates, Whitehead Institute for Biomedical Research
	Board of Directors, Statia Terminals Group, N.V. and Liberty Science Center
Community Affiliations:	*President Emeritus, Board of Managers of the New Jersey Division of Cancer Care*
	Board of Trustees, Henry H. Kessler Foundation
	Board of Trustees, Kessler Medical Rehabilitation Research and Education Corporation
	Board of Trustees, Montclair State University
	Vice President of the Board of Trustees, Kent Place School"

2. Documents available for Inspection

The following documents will be available for inspection at the registered office of the Company during normal business hours on any business day (Fridays, Saturdays and public holidays excluded) up to and including the date of the Extraordinary General Meeting and also at Jones Day, 21 Tudor Street, London EC4Y 0DJ during normal business hours on any business day (Saturdays, Sundays and public holidays excluded) up to and including the date of the Extraordinary General Meeting and also at The Dan Tel Aviv Hotel, 99 Hayarkon Street, 63432, Israel for at least 15 minutes prior to and during the Extraordinary General Meeting (or any adjournment thereof):

(a) the current Articles of Association of the Company;

(b) the service agreements of the Directors;

(c) the rules of the Company's share option schemes; and

(d) the financial statements of the Company for the financial year ended 31 December 2003 and for the six (6) months ended 30 June 2004.

Notice of Extraordinary General Meeting

XTL Biopharmaceuticals Ltd

Conquering hepatitis C in our time

(incorporated and registered in the State of Israel under the Israeli Companies Law - 1999 with registered number 52-003947-0)

Notice is hereby given that the Extraordinary General Meeting (the "**Meeting**") of XTL Biopharmaceuticals Ltd ("**XTLbio**" or the "**Company**") will be held at The Dan Tel Aviv Hotel, 99 Hayarkon St., Tel Aviv63432, Israel **at 12.00 p.m. (Israel Time) on 24 February 2005**, to consider, and if thought fit, pass the following resolutions:

Ordinary Resolutions

1. THAT Ben Zion Weiner be and is hereby appointed as a Director of the Company until the closing of the next annual general meeting.

2. THAT William Kennedy be and is hereby appointed as a Director of the Company until the closing of the next annual general meeting.

3. THAT Jonathan Spicehandler be and is hereby appointed as a Director of the Company until the closing of the next annual general meeting.

4. THAT Elkan Gamzu, Geoffrey Vernon and Peter Stalker III be and they are hereby removed from their position as Directors of the Company with immediate effect.

5. THAT a grant to Michael Weiss of Options to purchase 9,250,000 Ordinary Shares of the Company at an exercise price equal to £0.20 per share (the "**Exercise Price Per Share**"), all such Options to be issued subject to the Criteria which is attached as **Exhibit A** to the Notice of Shareholders Meeting (the "**Criteria**"), be and is hereby approved.

6. THAT a grant to Ben Zion Weiner of Options to purchase 2,000,000 Ordinary Shares of the Company at an exercise price equal to the Exercise Price Per Share, all such Options to be issued subject to the Criteria, be and is hereby approved.

Special Resolutions

7. THAT the existing Articles of Association of the Company be amended by the deletion of the existing Articles 6.1, 6.3 and 6.4 and the replacement therefore with the following:

   "6.1 The shares of the Company shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions, and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit."

   "6.3 Reserved."

   "6.4 Reserved.

8. THAT the existing Articles of Association of the Company be amended by the amendment of Articles 26.1 and the replacement of the word "seven (7)" with the word "five (5)" so that following such amendment, Article 26.1 shall state the following:

"26.1 Until such time as the General Meeting decides otherwise, the number of members of the Board of Directors shall be not less than five (5) and not more than twelve (12)."

Ordinary Resolution

9. THAT a grant to Elkan Gamzu, effective as of December 1, 2004, of a monthly remuneration of US$25,000 for each month he serves as interim Chief Executive Officer of the Company (such amount to be pro rated for any parts of a month), be and is hereby approved.

By order of the Board

Ronen Kantor
Company Secretary

25 January 2005

Registered Office:

Kiryat Weizmann Science Park
Building 3, PO Box 370
Rehovot 76100
Israel
Tel: +972-8-930-4444

Notes:

1 *Any shareholder holding shares of the Company on the close of business on 11 February 2005, shall be entitled to attend and vote at the Meeting. Such shareholder may appoint one or more proxies to attend and to vote instead of him or her. A proxy need not be a shareholder of the Company.*

2 *To be valid, an original form of proxy for use at the Meeting, duly signed and executed, together with any power of attorney (if any) or other authority under which it is signed (if any), or a notarially certified copy of such proxy, power or authority (as applicable), must be deposited at the Company's registrars, Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands (or, by hand only, at Computershare Investor Services PLC, 68 Upper Thames Street, Vintner's Place, London, EC4V 3BJ), at least 48 hours before the time for holding the Meeting (12.00 p.m. (Israel Time) on 22 February 2005).*

3 *Completion and return of a form of proxy will not preclude a shareholder from attending and voting at the Meeting in person if he or she subsequently decides to do so.*

4 *The approval of all resolutions proposed at the Meeting shall require a majority vote at the Meeting.*

5 *Shareholders are advised that the Meeting shall be held in the English language.*

EXHIBIT A

The Company will grant the Directors (each a "**Grantee**") the Options to purchase Ordinary Shares, of nominal value NIS 0.02 each of the Company (the "**Shares**"), which options shall be exercisable for a period of five (5) years from the date of issuance at the Extraordinary Shareholders meeting. The Options will be granted in accordance with the terms and condition governing the Company's 2001 Stock Option Plan (the "**Plan**") and will be subject to the terms and conditions thereof; provided, however, that if any provisions hereunder are inconsistent with the terms and conditions of the Plan, the terms hereunder shall control. In accordance with the Plan, should any change be made to the Ordinary Shares by reason of any stock split, stock dividend, extraordinary cash dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Ordinary Shares as a class without the Company's receipt of consideration, appropriate adjustments shall be made to (A) the total number and/or class of securities subject to such options and (B) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement under such options.

The Options granted to the Grantees shall vest as follows: (a) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $150 million, as determined utilizing the Market Capitalization Formula (defined below); (b) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $250 million, as determined utilizing the Market Capitalization Formula; and (c) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $350 million, as determined utilizing the Market Capitalization Formula, provided that at each such vesting the Grantees is still a Director of the Company.

With regard to any Grantee who is a resident of the US for tax purposes, these Options are intended to qualify as "incentive stock options" under section 422 of the Internal Revenue Code of 1986, as amended, to the extent allowable. The Grantee's shall be entitled to pay the exercise price of any or all of the Options described by any method set forth in the Plan and shall be allowed to satisfy any withholding obligations incurred on the exercise of such Options by electing to have option shares withheld upon such exercise. The Company shall use best efforts to cause all of the shares underlying such Options to be fully registered and freely tradable, including for resale without any limitations or restrictions, provided, however, that while the Grantees are Director's of the Company, each Grantee shall agree to abide by the trading restrictions that may be imposed upon such Grantee from time to time pursuant to any laws, statutes, rules or regulations to which the shares underlying the Options may be subject from time to time.

The "**Market Capitalization Formula**" shall be calculated as follows: the fully diluted shares (including shares attributable to all options, warrants, other purchase rights and convertible securities, which are in the money and including shares held by affiliates (collectively "**market capitalization shares**")) multiplied by the three (3) consecutive trading day average of the closing price of the Ordinary Shares as reported by Nasdaq (or such other exchange as such shares are then listed or in the good-faith determination of the board, if not then listed or quoted) plus long-term debt (as of any date) minus Working Capital (as defined below) and minus the aggregate exercise price of all options and warrants included in the market capitalization shares. The term "**Working Capital**" shall mean as of any date, (1) the current assets plus investment securities or cash equivalents thereof or similar assets that have maturities in excess of 12 months, minus (2) current liabilities.

PART IV

Annual Report 2004

Annual Report 2004

Dear Shareholder,

As the Interim Chairman and Chief Executive Officer, I am pleased to update you on the achievements of XTLbio during 2004. It has been a year of success and also one of change.

HepeX™-B Commercial and Clinical Progress

A major achievement on the business front was the establishment in June of a commercial agreement with Cubist Pharmaceuticals, Inc. for the licensing, development and commercialisation of HepeX™-B, our most advanced program. HepeX™-B is targeted for the prevention of hepatitis B virus (HBV) re-infection in patients who have received a liver transplant for end-stage hepatitis B infection. Not only does this agreement lend continuing validation to our various hepatitis programs, but it also allowed us to reallocate resources to our higher-value development programs targeted at the hepatitis C virus (HCV).

We are proud to be working with Cubist, a company that has proven its ability to develop and launch a novel anti-infective product. During 2004, Cubist successfully raised over $100M, indicating that some of those funds would be dedicated to the development of HepeX™-B.

In November, we announced, together with Cubist that an independent Data and Safety Monitoring Board (DSMB) recommended continuation of the ongoing Phase IIb trial of HepeX™-B to prevent hepatitis B reinfection in patients who have received a liver transplant, and who have been maintained on hepatitis B immune globulin (HBIg). We look forward to completing the enrolment into this trial in 2005.

Alongside these business and clinical achievements in our HepeX™-B program, was the issuance to XTLbio of a fourth patent in the area, as well as the EU designation of HepeX™-B as an Orphan Drug, which complemented a similar designation by the US FDA in 2003.

HepeX™-C Clinical and Research

The Company also made important progress toward the goal of developing a combination of two human monoclonal antibodies (MAbs) AbXTL65 and AbXTL68 for the prevention of HCV re-infection in liver transplant patients. Based on the biological activity measured in samples from patients in our Phase IIa trial of the single MAb (AbXTL68), we can now estimate the target dosing range required to achieve a therapeutic effect in these patients.

During 2004, the Company voluntarily halted enrolment into one of the dosing arms in that trial, after a patient did not survive the transplant operation. Subsequently, the Medical Examiner concluded that the cause of death was pulmonary emboli and expert consultant reviews did not reveal any evidence of a drug relationship. Consequently the FDA agreed that entry into the specific dose cohort could be reopened. However, by that time, the Company had already obtained the information necessary to estimate the target dosing range and decided to focus its resources on the combination of the two antibodies.

At the annual meetings of the American Association for the Study of Liver Diseases (AASLD) and the European Association of the Study of Liver diseases (EASL), our scientists presented data showing that XTLbio's two antibodies had complementary activity and that a mixture of both antibodies effectively

neutralized the hepatitis virus in serum from patients with chronic HCV – a powerful example of the utility of the dual MAb approach. This presentation and that of the data from our clinical trial of AbXTL68 were well received and contributed to growing awareness of XTLbio as an important company in the area of potential therapeutics for the treatment of hepatitis.

In 2004, the Company had a pre-IND (Investigational New Drug application) meeting with the FDA at which XTLbio presented data on the dual Mabs - AbXTL68 and AbXTL65 - which had successfully completed pre-clinical development. XTLbio presented the rationale for developing HepeX™-C as a combination product containing both MAbs (targeting different viral sites). The Company is now preparing an IND for the dual-MAb product for submission to the FDA in 2005.

Our intellectual property position around the HepeX™-C program was further strengthened by the issuance of a patent for an anti HCV human monoclonal antibody recently licensed from Stanford University. This is XTLbio's first issued patent in the area of HCV antibodies and it will provide a strong intellectual property base for the Company's enhanced HepeX™-C product in the US.

Small Molecule Program Against Chronic HCV

As was reported early in the year, our small molecule program for the treatment of chronic HCV has yielded two clinical candidates. These are proprietary synthetic compounds that inhibit the enzyme responsible for the replication of HCV. Data from this project were also presented at EASL. We are continuing to move both molecules forward along the development path and hope to submit an IND to the US FDA later in 2005.

Financing

In July, we significantly strengthened our financial position by closing a $17.8 million financing, through a Placing and Open Offer, approximately 10% of which was raised in the USA. Given the difficult market we were pleased to have been able to raise significant new funds for the Company and to have attracted a number of new top tier institutional investors.

NASDAQ

Early in 2004, we communicated our desire to seek a listing on the US NASDAQ market which is a dynamic centre for biotechnology investment, innovation and commercialisation. We believe that a US listing would provide further opportunity for management to grow the business. In preparation we have undertaken a number of steps including the restructuring of our Board of Directors to a US format, whereby the Directors are largely non-executive and a major part of the Board is comprised of directors with US company experience. To this end, we appointed Peter Stalker lll , a former Managing Director of Warburg, Pincus and Company, in New York. We also reduced the number of Directors on the Board to render it more efficient and began actively seeking a US-based Chief Executive Officer with a proven track record. Finally, we have raised awareness of XTLbio by presentations at various investor conferences.

When market and other conditions are appropriate, XTLbio should be ready to capitalize on the opportunity.

Personnel Changes

2004 has also been a year of change at the managerial level. To some extent, these changes have been driven by our successes. With two projects already in the clinic and a potential third IND submission by late 2005, the clinical, product development and business activities have taken on a greater importance as we transition from a purely research based company to a more commercially-focused business. To lead us through this transition, business-oriented managerial skills are essential to ensure our continued success.

To this end, Dr. Martin Becker resigned as Chief Executive Officer to enable us to seek a US-based Chief Executive Officer with experience, not only in development of pharmaceuticals, but also with a proven track record in commercialisation, as well as experience in fund raising and interacting with Wall Street. I agreed to serve as the interim Chief Executive Officer until a new Chief Executive Officer is appointed.

The Company is extremely grateful to Dr. Becker for the many years of service and for leading the business through recent years of significant progress including the Company's public listing in London, the commercial out-licensing of one of our lead products and the fundraising this summer which set us up well for 2005 and beyond. We all wish Martin every success in his future endeavours.

Glenn Kazo resigned as Chief Business Officer toward the end of the year to pursue other interests. We thank Glenn for his 5 years of service and the important role he played both in key in-licensing activities, which have contributed greatly to our current portfolio, as well as for his role in the alliance with Cubist.

Importantly, two new members were added to the management team. Dr. Clarence Richard (Rick) Wobbe was named as Senior Director, Program Manager. Rick's experience in developing pre-clinical candidates through the clinical stage will be a valuable asset as he leads the small molecule program targeted for the treatment of chronic HCV. Craig Shore, was appointed General Manager of the Israel site. Craig brings with him financial/general manager experience from two of the world's largest pharmaceutical companies as well as experience in managing an IPO on NASDAQ.

As referenced earlier, there has also been change at the Board level. As the Company grows we wish to tap into the major sources of support for biotechnology that are located in the US. Not only did we limit Board membership to non-executive directors (with the exception of the Chief Executive Officer), but we also appointed two new members: Peter Stalker and Michael Weiss, both US-based. In addition, Martin Becker, Ehud Geller and Hadar Ron chose to resign. In January 2005, Geoffrey Vernon informed us that due to family reasons he was stepping down as non-Executive Chairman and again I agreed to serve in that role until a more permanent solution was reached. We thank our colleagues for all their efforts on behalf of the Company.

I would like to thank our staff for their hard work and commitment, and our shareholders for their ongoing support. We are looking forward to building on last year's success during 2005.

Elkan Gamzu, PhD
Interim Chairman and Chief Executive Officer
17 February 2005

The following discussion of the financial position and results of operations of the Company is based on, and should be read in conjunction with, the audited consolidated financial statements of the Company and its subsidiary and the notes thereto for the year ended 31 December 2004 on pages 23 to 55. The Company's consolidated financial statements have been prepared in accordance with US GAAP.

Results of Operations

The results are in line with expectations with a loss for the year of US$16.5 million (2003: US$14.3 million).

The Company recorded revenue of US$3.5 million (2003: nil). Revenue for the year was primarily due to the reimbursement for development expenses for HepeX™-B that were incurred pursuant to XTLbio's licensing agreement with Cubist and was also due to in-licensing revenue pursuant to the agreement with Cubist. The Company entered into its agreement with Cubist in June 2004.

The Company recorded cost of revenues of US$3.3 million (2003: nil). Cost of revenues for the year was primarily due to development expenses for HepeX™-B that were incurred pursuant to the licensing agreement with Cubist and was also due to licensing expenses pursuant to our licensing agreement with Yeda.

Research and Development costs decreased by US$1.7 million to US$12.0 million (2003: US$13.7 million). The decrease in research and development costs was due primarily to the absence of expenses related to early stage discovery research activities related to infectious diseases, a decrease in expenses related to the development and clinical program of HepeX™-B, due to the initiation of the collaboration agreement with Cubist, as well as due to a decrease in expenses related to the development and clinical program of HepeX™-C. This decrease was partially offset by an increase in expenses associated with XTLbio's HCV-SM program.

There were no participations from the Office of the Chief Scientist for the year (2003: US$3.2 million). The Company ceased requesting grants from the Office of the Chief Scientist in 2004 due to the potential contingent liability associated with the transfer of manufacturing rights outside Israel.

General and administrative expenses increased by US$1.0 million to US$4.1 million (2003: US$3.1 million). The increase in general and administrative expenses was due primarily to an increase in payroll and related costs, which included a charge related to the resignation of our former Chief Executive Officer pursuant to his employment agreement, as well as to increased expenses related to patent registration fees and professional fees.

Business development costs increased by US$0.1 million to US$0.8 million (2003: US$0.7 million). The increase in business developments costs was due primarily to an increase in professional fees associated with XTLbio's agreement with Cubist that was signed in June 2004, offset by reduced travel-related expenses.

Financial income for the year was unchanged at US$0.4 million. Financial income was flat due to reduced interest income earned on lower average cash balances during the current year offset by an absence of foreign exchange losses.

The carry forward loss for tax purposes is approximately US$92 million that may be offset against future taxable income.

Liquidity and Cash Flow

At 31 December 2004, XTLbio had a cash balance (including short term bank deposits) of US$22.9 million (2003: US$22.3 million). Net cash outflow from operating activities in the year was US$14.5 million (2003: US$13.3 million). The net outflow of cash from operating activities is due principally to the Company's operating loss. The net outflow of cash from operating activities was offset by net proceeds of US$15.4 million that were generated from the Company's fundraising in August 2004. As a result of the execution of the Company's business plan, it is expected that operating cash outflow will continue in 2005.

Treasury Policies

The Company continually reviews its cash management and control over treasury management is exercised by the Board through the setting of policy and the review of rolling cash flow forecasts. The Company does not engage in speculative transactions or derivatives trading in respect of cash balances held and the policy is to derive the maximum interest return consistent with flexibility to undertake ongoing activity whilst protecting the asset.

Jonathan Burgin
Chief Financial Officer
17 February 2005

Statement of Operations

US dollars in thousands	Year ended 31 December 2004	2003	2002
Revenues	3,454	–	–
Cost of Revenues	3,301	–	–
Research and Development Costs Less Participations	11,985	10,439	13,156
General and Administrative Expenses	4,134	3,105	3,638
Business Development	810	664	916
Impairment of Asset held for sale	–	354	–
Finance income, net	(352)	(352)	(597)
Taxes on Income	49	78	27
Loss for the period	16,473	14,288	17,140

Balance Sheets

US dollars in thousands			
Cash, short and long term investments	22,924	22,262	35,706
Net current assets	20,240	19,967	33,396
Property and equipment, net	908	1,053	1,770
Total Assets	25,624	24,853	38,423
Long term liabilities	2,489	1,244	1,017
Shareholders' equity	19,602	20,608	34,830

Employee Numbers

At Year End	60	55	74

The Directors present their report and the audited financial statements for the year ended 31 December 2004.

Activities

The principal activity of the Company is the development of a therapeutic pipeline for the treatment of infectious diseases. A review of the Company's business and its prospects is included within the Chief Executive Letter to the Shareholders and the Financial Review.

Results and Dividends

The results of the Company for the year ended 31 December 2004 are set out in the statement of operations on page 27. The audited financial statements for the year ended 31 December 2004 are set out on pages 23 to 55. The Directors do not recommend the payment of a dividend for the year (2003-US$nil).

Directors

The Directors of the Company, who served during the year, are as follows:

Executive Directors:

M. Becker – Chief Executive Director (resigned 5 January 2005)
J. Burgin (resigned 13 September 2004)
S. Dagan (resigned 13 September 2004)
G. Kazo (resigned 13 September 2004)

Non-Executive Directors:

G. Vernon (Chairman till 5 January 2005)
E. Gamzu (Interim Chief Executive Director from 1 December 2004 and Interim Chairman from 5 January 2005)
E. Geller (resigned 13 September 2004)
R. Kathoke
H. Ron (resigned 8 June 2004)
P. Smith
P. Stalker (appointed 12 January 2004)
M. Weiss (appointed 30 November 2004)

Particulars of the interests of the Directors in the ordinary shares and share options of the Company are set out in the Remuneration Committee's report.

Creditor Payment Policy

It is the Company's policy to agree payment terms with suppliers at the commencement of trading relationships and to abide by those terms. The Company's trade creditors at 31 December 2004 represented 36 days of annual purchases (2003 – 37 days). The Company does not have significant trade creditors.

Substantial Shareholdings

So far as is known to the Company, the only persons who, directly or indirectly, were interested in 3 percent or more of the Company's share capital at 11 February 2005 were as follows:

Shareholder name	Number of shares	Percent
Bank Julius Baer	17,476,370	10.40%
Perpetual Income & Growth Investment Trust plc	15,629,713	9.30%

Share Capital

Details of the shares issued during the year and outstanding options are given in Note 6 to the financial statements.

Employees

The Company recognises that its success depends upon attracting, retaining and motivating skilled people and has designed its remuneration policy to recruit and retain the number and quality of people required to maintain the high standard and integrity of the business.

Briefing and consultative procedures exist throughout the Company to keep employees informed on general business issues and other matters of concern. The Company has a policy of offering share options to all eligible employees, subject to availability under the option plan rules.

The Company does not discriminate between employees and prospective employees on grounds of race, religion or gender. Every effort is made to provide the same opportunities to disabled persons as to others.

The Company is also committed to the principle of maximising every employee's potential. Therefore, training and development form an important part of the Company's Human Resources strategy, ensuring that employees have the opportunity to develop to their full potential.

Health and Safety

The Company is committed to the maintenance of high standards of practice concerning the health and safety of its employees. The Company recognises its legal and moral obligations in this respect, and compliance with such obligations and with Company policy is monitored by the Board. The Company is committed to preventing accidents and minimising occupational ill health. The Company's Health and Safety Committee meet eight times a year to discuss issues and promote good practice.

Environment

The Company is aware of its corporate responsibilities towards the environment. The Company is committed to ensuring that the impact of its activities on the environment is minimised. The Company endeavours to ensure that all gaseous emissions and liquid or solid waste produced in our work are controlled and disposed of, whether handled directly or via a third party, in accordance with applicable laws and regulations and with the minimum impact on the environment. Disposal of hazardous waste is handled by specialist agencies. The Company endeavours to meet all the statutory requirements relating

to handling and disposal of radioactive materials. The Company is audited and inspected on a regular basis by the Ministry of Environmental Affairs and Ministry of Labour in order to verify adherence to all relevant regulations.

Charitable and Political Donations

Charitable donations made by the Company during the year amounted to US$1,118 (2003: US$1,546). The donations are to hepatitis related organisations. No political donations were made during the year (2003: US$nil).

Auditors

The Directors of the Company propose to nominate Kesselman & Kesselman, a member of PricewaterhouseCoopers International as auditors of the Company for 2005.

Approved by the Board,
Ronen Kantor, Adv.
Company Secretary
17 February 2005

The Company is not required to comply with the Combined Code but has voluntarily decided to do so in so far as is appropriate having regard to the size of the Company and subject to the provisions of Israeli law and practice.

The Directors have set out below the means by which they apply current best practice corporate governance procedures within the Company and the extent to which the Company has complied with the provisions of the Principles of Good Governance and Code of Best Practice (the "Combined Code"), which is appended to the Listing Rules of the Financial Services Authority.

Board of Directors

As part of the Board's intention to pursue a NASDAQ listing of the Company's securities, it has taken the following steps to effect such a NASDAQ listing:

- Restructuring the Board to a US format, whereby the Directors are largely non-Executive and a major part of the Board is comprised of US based Directors with US public company experience; and
- Reducing the total numbers of Directors on the Board

At 31 December 2004, the Board of Directors (the "Board") comprises one Executive and five non-Executive Directors. The role of non-Executive Directors is to ensure that independent judgement is brought to Board deliberations and decisions. All Directors bring strong business judgment and considerable knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct. It is proposed at an upcoming Extraordinary General Meeting to grant Michael Weiss options to purchase 5.5% of the outstanding ordinary shares. Elkan Gamzu is the Interim Chairman and Chief Executive Officer. The other non-Executive Directors are considered by the Board to be independent.

Rusi Kathoke and Patricia Smith are "External Directors" as required under the Israeli Companies Act – 1999 (the "Israeli Act"). According to the Israeli Act, they are elected for a period of three years. All other directors are required to submit themselves for re-election every year.

The Israeli Act also necessitates both External Directors to be members of the Audit and Remuneration Committees. The Board regards these Directors as fulfilling the role of senior independent Directors as specified in the Combined Code and they are available to shareholders if they have concerns.

The Board meets at least five times a year with additional meetings, by teleconference if necessary, when circumstances and urgent business dictate. In the year under review six meetings were held. All of the Directors attended all the meetings except that Patricia Smith did not attend the May Board meeting, Elkan Gamzu did not attend the June Board meeting and Ehud Geller did not attend the June and September Board meetings. The Board has adopted a formal schedule of matters specifically reserved to it for decision. These include overall Company strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management and treasury policies and the establishment and monitoring of internal controls. Directors are given appropriate and timely information for each board meeting. At each meeting, the Board reviews the progress of the Company towards its objectives, particularly in respect of the development projects and monitors financial performance against budget. The Chairman ensures that all Directors are properly

briefed on issues arising at board meetings. The roles of the Chairman and Chief Executive are kept separate, save since 5 January 2005 when Elkan Gamzu undertook both roles on an interim basis. The Company has insurance coverage in respect of legal action against its Directors.

Where necessary, training is made available to the Directors to assist them in the performance of their duties. On appointment to the board a new Director meets with the Company's external legal counsel to receive a briefing, tailored to the individuals background and experience. The terms and conditions of appointment of non-Executive Directors are available for inspection by any person at the Company's registered office during normal business hours. Each Director has access to the services of the Company Secretary. The appointment and removal of the Company Secretary is determined by the Board as a whole. The Directors are entitled to seek independent professional advice in furtherance of their duties, if necessary, at the Company's expense. The Board has established a nomination committee to deal in all matters relating to Board appointments.

Principal Board Committees

Audit Committee

The Audit Committee comprises of three non-Executive Directors. The Committee is chaired by Rusi Kathoke with Patricia Smith and Peter Stalker III as members. Rusi Kathoke has recent and relevant financial experience. The Committee has written terms of reference as required by the Israeli Act. The Committee meets at least twice a year and monitors the adequacy of the Company's internal controls, accounting policies and financial reporting. It regularly reviews the results of the ongoing risk self-assessment process, which the Company undertakes, and the Company's interim and annual reports prior to their submission for approval by the full Board. It also provides a forum through which the Company's external auditors report to the Board. The Audit Committee oversees the activities of the Internal Auditor, sets his annual tasks and goals and reviews his reports. The committee reviews the objectivity and independence of the external auditors and also considers the scope of their work and fees. Provision is made for the Audit Committee to meet at least once a year with the Company's external auditors in the absence of any member of management.

Remuneration Committee

This Committee comprises of five non-Executive Directors, Geoffrey Vernon as Chairman of the Committee, with Elkan Gamzu, Rusi Kathoke, Patricia Smith and Peter Stalker lll as members. The Committee's report to the shareholders appears on pages 16 to 22.

Nominations Committee

This Committee comprises of three non-Executive Directors, Geoffrey Vernon as Chairman of the Committee, with Rusi Kathoke and Peter Stalker III as members. The Nominations Committee uses an external search consultancy when appropriate or considers nominations from shareholders. New candidates to be appointed meet with the Nominations Committee in order to ascertain their suitability, their potential contribution to the Board and the Company and to ensure that they have no conflicting interests. The selected candidates then meet with the remaining members of the Board and are then confirmed.

Relationships with Investors

Institutional Investors

The Company has designated various members of the Board as its principal spokespersons with institutional investors, analysts, press and other interested parties.

Private Investors

All shareholders are sent copies of the Annual and Interim Reports and where appropriate, circulars and prospectuses, and are given notice to enable them to attend the Company's Annual General Meeting. Shareholders whose shares are held by nominees may receive copies of such communications upon request.

All shareholders can gain access to information about the Company through its website (www.xtlbio.com) which includes details relating to its development pipeline and technology, press releases and share price.

Internal Control

The Board, through the Audit Committee, has regularly reviewed the effectiveness of the Company's system of internal controls covering financial, operational, compliance and risk management. The Board of Directors has overall responsibility for ensuring that the Company maintains adequate systems of internal control. Such a system is designed to manage rather than eliminate risks and therefore can only provide reasonable and not absolute assurance against material misstatement or loss. The Company has established a formal process, which accords with the Turnbull guidance for identifying and evaluating the significant risks faced by the Company and carries out an ongoing comprehensive risk assessment. The Board regularly reviews the system of internal controls and the effectiveness of risk identification and evaluation, updating the risk assessment as appropriate. This review process has been in place throughout the year up to the date of approval of the annual report and accounts and covers risk management and controls of financial, operational and regulatory matters.

Internal Auditor

As required by the Israeli Act, the Company has appointed an Internal Auditor whose role is to examine whether the Company's actions comply with the law, integrity and orderly business procedure. The Internal Auditor reports to the Audit Committee who in turn reviews the scope, authority and resources of the Internal Auditor.

The BioIndustry Association (BIA) Code of Best Practice

The UK BioIndustry Association, of which XTLbio is a member, has published a code to establish principles of best practice for information communication and management amongst its members. The principles support and extend the Company's duty to publish and communicate information in a fair, equal and balanced manner. The Board is committed to providing quality dialogue with their investors and other parties and confirms that the Company has complied with the Code for the year under review.

XTLbio
Conquering hepatitis C in our time

Tel Aviv Stock Exchange

Listing Documents

Index

XTL Biopharmaceuticals Ltd. Kiryat Weizmann Science Pk, Bldg 3, POB 370, Rehovot 76100, Israel Tel: +972-8-930-4444 Fax: +972-8-930-4445

Going Concern

XTLbio is a development stage biotechnology Company. The Company does not yet have any product sales and the Board expects to consume cash until products are commercialised. The Directors have made enquiries into the adequacy of the Company's financial resources through a review of the Company's budgets and cash flow forecasts, and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 12 months. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board,
Ronen Kantor, Adv.
Company Secretary
17 February 2005

The Remuneration Committee

The Remuneration Committee (the "Committee") consists of five non-Executive Directors of the Company which are Geoffrey Vernon (Chairman of the Committee), Elkan Gamzu, Rusi Kathoke, Patricia Smith and Peter Stalker III. The responsibilities of the Committee are to set the Company's overall policy on executive remuneration and to decide the specific remuneration, benefits and terms of employment for each Senior Manager, including the Chief Executive, and a number of others.

Policy on Executive Directors' and Senior Managers Remuneration

The objectives of the Committee's policies are that Executive Directors and Senior Management should receive compensation, which is appropriate given their performance, level of responsibility and experience. Remuneration packages should also allow the Company to attract and retain executives of the necessary calibre while, at the same time, motivating them to achieve the highest level of Company performance in line with the best interests of shareholders. In order to determine the elements and level of remuneration appropriate to each Senior Manager, the Committee reviews surveys on executive pay and considers individual performance.

Components of Executive Directors' and Senior Managers Remuneration

Executive Directors' and Senior Managers remuneration currently comprises some or all of the following components: annual salary, annual bonus, advanced training fund, use of a company car, a long-term incentive in the form of share options and managers' insurance. The Executive Directors receive no other form of remuneration. Under the Israeli Act, the remuneration package of the Executive Directors and the remuneration of the other Directors requires approval of the shareholders at a general meeting.

Annual Salary

The salaries of Senior Managers are proposed by the Committee, which determines the appropriate salary level for each Senior Manager taking into consideration the nature and status of the Company's operations and the responsibilities and performance of each Senior Manager. The Committee also compares the Company's remuneration packages with jobs of a similar type and seniority in companies, which are comparable with XTLbio and with which it competes for staff.

Advanced Training Fund

Advanced Training Funds are a type of regulated provident fund operated under collective agreements in many sectors of the economy. Advanced Training Funds are intended to encourage employees to set aside savings towards their further training or enlightenment. Differing contribution rates apply, but, in general, as for the Executive Directors of the Company, an employee contributes 2.5% of salary and the employer contributes 7.5%.

Long-Term Incentives

The Board believes that long-term incentive schemes provide a strong incentive allowing the retention and recruitment of high calibre individuals, ensuring that the performance of executives is focused on creating long-term shareholder value and allowing the Company's cash reserves to be conserved. This is achieved through the share option scheme. The scheme enables the Executive Directors and other employees to participate in share price growth. Grants of options are at the market price of the

Company's shares on the date of the grant and are based on performance criteria. The performance criteria (by 17 May 2003) for the last options granted in May 2001 were a third for each condition: Completion of an outlicensing transaction, successful completion of Phase 1 clinical trials of HepeX™-C (HCV), and Company's shareprice outperforms by 10% the FTSE All Share Index during the period from the date of grant of the Options until 17 May 2003. As only the criteria relating to completion of Phase 1 clinical trials was met, two thirds of the granted options expired.

Manager's Insurance ("Pension")

The Manager's Insurance policy comprises of customary tax saving schemes organized by insurance companies for and on behalf of the employee to which the Company pays 8.33% of the employee's salary for severance pay, 5% towards a pension savings account and 2.5% towards loss of working capacity insurance. In addition, the employer is required to deduct 5% of the employee's salary towards the pension savings account. Upon the severance of the employee's employment with the Company, typically all amounts accrued in the managers insurance policy for severance are released to the employee in lieu of severance pay. All amounts accrued in the pension savings account and in the manager's insurance policy for severance, except for specific circumstances, are released to the employee, together with all accrued proceeds, upon the retirement of the employee.

Executive Directors' Service Contracts

XTLbio's purpose in entering into service contracts with Executive Directors is to enable the recruitment of high quality executives and obtain protection from their sudden departure to competitor companies. In addition, service contracts are an important element of maintaining maximum protection for the Company's intellectual property rights and other commercially sensitive information. The maximum notice period required for the termination of an Executive Director's service contract is six months by both the Company and the Executive Director.

Non-Executive Directors' Remuneration

Non-Executive Directors have service contracts or letters of engagement. Non-Executive Directors do not receive any remuneration from the Company other than their fees for services as members of the Board and additional fees if they serve on committees of the Board. The level of fees is determined by the Chairman in consultation with the Executive Directors and is within market practice. There are no other arrangements with Directors or their affiliates.

The current remuneration of non-Executive Directors of the Company, which has been approved by shareholders since the listing of the Company's shares, falls into one of the following categories:

Cash-based Remuneration Package

(a) An annual payment of £10,000 together with a payment of £1,000 for attendance at each board meeting and £500 for attendance at each committee meeting.

(b) Reimbursement for any reasonable and out-of-pocket expenses.

Cash and Option-based Remuneration Package

(a) An annual payment of US$15,000, payable in four (4) equal quarterly instalments, for the duration serving as a director.

(b) One time grant of 60,000 options to purchase 60,000 ordinary shares, nominal value NIS0.02 of the Company, at an exercise price equal to the average price per share quoted on the London Stock Exchange, in the three (3) days preceding such date of issuance, such options to vest over 3 years, so that 1/3 of such options shall vest on the first, second and third anniversary of the date of issuance, provided that at such time the individual still continues as a Director.

(c) Reimbursement for any reasonable and out-of-pocket expenses.

Directors Service Contracts

	Contract Date	Unexpired Term	Notice Period	Contractial Termination Payments
Executive				
Martin Becker	Oct 1998	None	6 months	Previous year's salary
Shlomo Dagan	May 1994	None	3 months	(**)
Jonathan Burgin	Aug 1999	None	3 months	25% Previous year's salary and (**)
Glenn Kazo	Aug 1999	None	None	50% Previous year's salary
Non Executive				
Geoffrey Vernon (*)	Oct 1998	None	None	Nil
Elkan Gamzu	Jan 2003	None	None	Nil
Ehud Geller	None	None	None	Nil
Rusi Kathoke	Dec 2000	20 months	None	Nil
Hadar Ron	Oct 2003	None	None	Nil
Patricia Smith	Dec 2000	20 months	None	Nil
Peter Stalker III	Jan 2004	None	None	Nil
Michael Weiss	None	None	None	Nil

(*) Fees are paid to a company controlled by the Director

(**) One month multiplied by number of years in employment

Directors' Remuneration

US dollars in thousands	Salary/ Fees	Benefits/ Bonus	Bonus	2004 Total	2003 Total	2004 Managers Insurance	2003 Managers Insurance
Executive							
Martin Becker	273	74	65	444	330	43	42
Shlomo Dagan (*)	109	27	–	136	191	17	25
Jonathan Burgin (*)	92	10	–	102	162	15	21
Glenn Kazo (*) (***)	150	10	–	160	224	–	–
Non Executive							
Geoffrey Vernon (****)	95	–	–	95	94	–	–
Elkan Gamzu	31	–	–	31	26	–	–
Ehud Geller (*)	–	–	–	–	–	–	–
Rusi Kathoke	34	–	–	34	30	–	–
Hadar Ron (*)	17	–	–	17	5	–	–
Patricia Smith	34	–	–	34	31	–	–
Peter Stalker III (**)	27	–	–	27	–	–	–
Michael Weiss	–	–	–	–	–	–	–

(*) Till date of resignation from the Board

(**) From date of appointment

(***) Does not receive advanced training fund, use of a company car and managers insurance

(****) Fees are paid to a company controlled by the Director

In June 2003 the Chairman (Geoffrey Vernon) and the then Executive Directors (Martin Becker, Jonathan Burgin, Shlomo Dagan and Glenn Kazo) decided to take a 10% reduction in salaries for a period of one year.

Directors' Options

	At 1 January 2004	Granted	At 31 December 2004 or date of resignation	Exercise price	Date of grant and start of exercise period	End of exercise period
Executive						
Martin Becker	1,261,000		1,261,000	$0.365	Jan 1997	Jan 2007
Martin Becker	2,274,000		2,274,000	$0.497	Oct 1998	Oct 2008
Martin Becker	243,333		243,333	$0.9313	May 2001	Oct 2008
Shlomo Dagan (*)	782,780		782,780	$0.365	Jan 1997	Jan 2007
Shlomo Dagan (*)	1,105,220		1,105,220	$0.497	Oct 1998	Oct 2008
Shlomo Dagan (*)	143,333		143,333	$0.9313	May 2001	May 2011
Jonathan Burgin (*)	678,720		678,720	$0.497	Aug 1999	Aug 2009
Jonathan Burgin (*)	580,000		580,000	$1.1	Apr 2000	Apr 2010
Jonathan Burgin (*)	123,333		123,333	$0.9313	May 2001	May 2011
Glenn Kazo (*)	840,000		840,000	$0.497	Aug 1999	Oct 2007
Glenn Kazo (*)	840,000		840,000	$1.1	Apr 2000	Oct 2007
Glenn Kazo (*)	196,667		196,667	$0.9313	May 2001	Oct 2007
Non Executive						
Geoffrey Vernon	500,000		500,000	$0.497	Oct 1998	Oct 2008
Geoffrey Vernon	300,000		300,000	$2.11	Sep 2000	Apr 2010
Elkan Gamzu	225,000		225,000	$0.497	July 1999	July 2011
Elkan Gamzu	300,000		300,000	$2.11	Sep 2000	Apr 2010
Ehud Geller (*)	300,000		300,000	$2.11	Sep 2000	Apr 2010
Peter Stalker III	–	60,000	60,000	$0.301	Jan 2004	Jan 2014

(*) At date of resignation from the Board – 13 September 2004

Options under the Share Option Schemes were granted for nil consideration.

No share options were exercised or forfeited by Directors during the year. The table above shows Director's entitlement to share options at the beginning and end of the financial year and those granted during the year.

All options are beneficially held by the Directors.

The above schemes are explained in detail in Note 6 of the Financial Statements.

The market price of the Company's Ordinary Shares at 31 December 2004 was 25.25p ($0.49) and the range of the market prices during the year was between 13.00p ($0.23) and 32.25p ($0.58).

Directors' Shareholdings

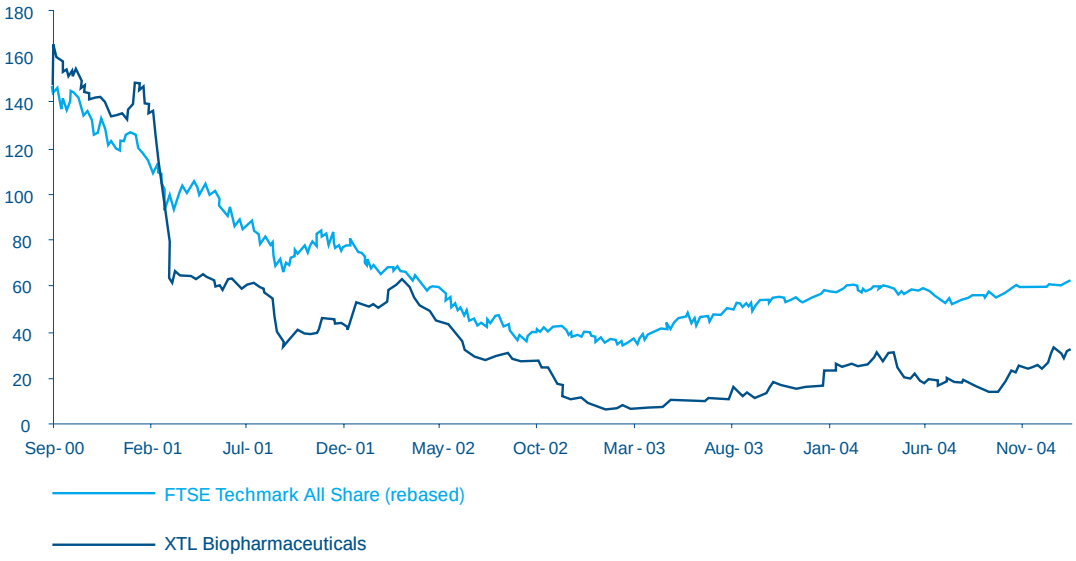
	At 1 January 2004	Purchase of shares during the year	At 31 December 2004 or date of resignation
Executive			
Martin Becker	860,000	11,890	871,890
Jonathan Burgin (*)	20,000	–	20,000
Shlomo Dagan (*)	57,000	–	57,000
Glenn Kazo (*)	135,000	–	135,000
Non Executive			
Geoffrey Vernon	70,000	22,629	92,629
Elkan Gamzu	40,000	59,452	99,452
Ehud Geller	78,360	–	78,360
Rusi Kathoke	15,000	–	15,000
Patricia Smith	60,000	11,890	71,890
Peter Stalker III	–	237,808	237,808
Michael Weiss	–	–	–

(*) At date of resignation from the Board – 13 September 2004

All Shareholdings are beneficially held.

Performance Graph

The graph below illustrates the performance of the Company over the period since the Company's flotation in September 2000. As the Company is a member of techMARK, the FTSE™ techMARK™ All-Share index is considered the most appropriate form of "broad equity market index", against which the Company's performance should be compared. Performance is measured by total shareholder return (share price growth plus dividends paid).



On behalf of the Board,

Geoffrey Vernon, PhD

Chairman of the Remuneration Committee

17 February 2005

Financials 2004

Table of Contents

To the Shareholders of XTL BIOPHARMACEUTICALS LTD.
(A Development Stage Company)

PRICEWATERHOUSECOOPERS

We have audited the consolidated balance sheets of XTL Biopharmaceuticals Ltd. (A Development Stage Company; hereafter – the "Company") and its subsidiary as of 31 December 2004 and 2003 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years ended 31 December 2004 and cumulatively for the period from 1 January 2001 to 31 December 2004 (see also below). These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the cumulative totals of the Company for the period from 9 March 1993 (date of incorporation) to 31 December 2000, which totals reflect a deficit of $25,201,000 accumulated during the development stage. Those cumulative totals were audited by other independent auditors whose report, dated 16 March 2001, expressed an unqualified opinion on the cumulative amounts through 31 December 2000. Our opinion, insofar as it relates to amounts included for that period is based on the report of the other independent auditors, mentioned above.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) and with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other independent auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the report of other independent auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as of 31 December 2004 and 2003, and the consolidated results of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended 31 December 2004 and for the cumulative period from 9 March 1993 (incorporation date) to 31 December 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1a to the financial statements, continuation of the Company's current operations after utilizing its current cash reserves during 2006, is dependent upon the generation of additional financial resources, either through agreements for the commercialization of its product portfolio or through external financing.

Kesselman & Kesselman
Certified Public Accountants (Israel)
A member of PricewaterhouseCoopers International

Tel-Aviv, Israel
17 February 2005

Consolidated Balance Sheets

US dollars in thousands	31 December 2004	2003
Assets		
Current Assets:		
Cash and cash equivalents (note 1e)	12,788	4,184
Short-term bank deposits (note 9a)	10,136	17,329
Marketable securities (note 9b)		749
Accounts receivable – trade (note 2)	543	
Accounts receivable – other (note 9c)	306	706
Total current assets	23,773	22,968
Severence Pay Funds (note 5)	830	673
Restricted Long-Term Deposit (note 7b(1))	113	159
Property and Equipment (note 4):		
Cost	3,312	3,143
Less – accumulated depreciation and amortization	2,404	2,090
	908	1,053
Total assets	25,624	24,853
Liabilities and shareholders' equity		
Current Liabilities –		
accounts payable and accruals (note 9d)	3,134	3,001
Deferred gain (notes 1j and 2)	399	
Total current liabilities	3,533	3,001
Liability for Employee Rights Upon Retirement (note 5)	1,291	1,244
Deferred Gain (notes 1j and 2)	1,198	
Commitments and Contingencies (note 7)		
Total liabilities	6,022	4,245
Shareholders' Equity (note 6):		
Ordinary Shares of NIS 0.02 par value (authorized: 300,000,000 as of 31 December 2004 and 2003; issued and outstanding: 168,079,196 as of 31 December 2004 and 112,019,464 as of 31 December 2003)	841	594
Additional paid in capital	104,168	88,966
Deferred share-based compensation	369	337
Accumulated other comprehensive loss		14
Deficit accumulated during the development stage	(85,776)	(69,303)
Total shareholders' equity	19,602	20,608
Total liabilities and shareholders' equity	25,624	24,853

Geoffrey Vernon
Director

Elkan Gamzu
Interim Chairman of the Board of Directors
and Interim Chief Executive Officer

Date of approval of the financial statements: 17 February 2005.

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Operations

US dollars in thousands (except share and per share data)	Year ended 31 December 2004	2003	2002	Period from 9 March 1993* to 31 December 2004
Revenues (notes 1j and 2):				
Reimbursed out-of-pockets expenses	3,269			3,269
License	185			185
	3,454			3,454
Cost of Revenues (notes 1j and 2):				
Reimbursed out-of-pockets expenses	3,269			3,269
License (with respect to royalties)	32			32
	3,301			3,301
Gross margin	153			153
Research and Development Costs (note 9e)	11,985	13,668	13,231	75,223
Less – Participations (note 7a(3))	–	3,229	75	10,950
	11,985	10,439	13,156	64,273
General and Administrative Expenses (note 9f)	4,134	3,105	3,638	23,555
Business Development Costs (note 9g)	810	664	916	4,286
Impairment of Asset Held for Sale (note 4c)		354		354
Operating Loss	16,776	14,562	17,710	92,315
Financial Income – net (note 9h)	352	352	597	6,700
Loss before Taxes on Income	16,424	14,210	17,113	85,615
Taxes on Income	49	78	27	161
Net Loss for the Year	16,473	14,288	17,140	85,776
Basic and Diluted per Share Data:				
Loss per ordinary share	$(0.12)	$(0.13)	$(0.15)	
Weighted average number of shares used to compute loss per ordinary share	134,731,766	111,712,916	111,149,292	

* Incorporation date, see note 1a.

The accompanying notes are an integral part of the financial statements.

US dollars in thousands	Preferred shares Number of shares	Preferred shares Amount	Ordinary shares Number of shares	Ordinary shares Amount
Changes During the Period from 9 March 1993 (Date of Incorporation) to 31 December 2001:				
Comprehensive loss:				
Net loss				
Net unrealized loss				
Comprehensive loss				
Exercise of share warrants			1,707,980	8
Exercise of employee stock options	15,600	*	221,638	1
Issuance of share capital, net of share issue expenses	43,571,850	250		
Bonus shares	7,156,660	41	19,519,720	97
Conversion of preferred shares into ordinary shares	(50,744,110)	(291)	50,744,110	291
Receipts in respect of share warrants (Expired in 1999)				
Issuance of share capital			15,183,590	75
Initial public offering ("IPO") of the Company's shares under a prospectus dated 20 September 2000 (net of $5,199,000 – issuance expenses)			23,750,000	118
Amortization of deferred compensation expenses				
Balance at 31 December 2001	-,-	-,-	111,127,038	590

The accompanying notes are an integral part of the financial statements.

Additional paid-in capital	Deferred share-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total
			(37,875)	(37,875)
		(45)		(45)
				(37,920)
496	(82)			422
90	(64)			27
26,187				26,437
(138)				
89				89
16,627				16,702
45,595				45,713
	483			483
88,946	337	(45)	(37,875)	51,953

US dollars in thousands	Ordinary shares Number of shares	Ordinary shares Amount
Balance at 31 December 2001 – brought forward	111,127,038	590
Changes During 2002:		
Comprehensive loss:		
Net loss		
Net unrealized loss		
Comprehensive loss		
Exercise of employee stock options	38,326	*
Balance at 31 December 2002	111,165,364	590
Changes During 2003:		
Comprehensive loss:		
Net loss		
Net unrealized gain		
Comprehensive loss		
Exercise of employee stock options	854,100	4
Balance at 31 December 2003	112,019,464	594
Changes During 2004:		
Comprehensive loss:		
Net loss		
Net unrealized gain		
Comprehensive loss		
Amortization of compensation expenses granted to consultants		
Exercise of employee stock options	50,000	*
Issuance of shares, net of $2,426,000 share issuance expenses	56,009,732	247
Balance at 31 December 2004	168,079,196	841

* Represents an amount less than $1,000.

The accompanying notes are an integral part of the financial statements.

Additional paid-in capital	Defrred share-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total
88,946	337	(45)	(37,875)	51,953
			(17,140)	(17,140)
		(3)		(3)
				(17,143)
20				20
88,966	337	(48)	(55,015)	34,830
			(14,288)	(14,288)
		62		62
				(14,226)
				4
88,966	337	14	(69,303)	20,608
			(16,473)	(16,473)
		(14)		(14)
				(16,487)
	32			32
19				19
15,183				15,430
104,168	369	-,-	(85,776)	19,602

Consolidated Statements of Cash Flows

US dollars in thousands	Year ended 31 December 2004	2003	2002	Period from 9 March 1993(b) to 31 December 2004
Cash Flows from Operating Activities:				
Net loss for the period	(16,473)	(14,288)	(17,140)	(85,776)
Adjustments to reconcile loss to net cash used in operating activities:				
Depreciation and amortization	319	440	470	2,587
Capital loss (gain) on sale of property and equipment	1	2	(1)	12
Change in liability for employee rights upon retirement	30	129	333	1,469
Impairment of asset held for sale		354		354
Loss (gain) from marketable securities, net	13	(27)	41	(410)
Stock based compensation expenses	32			515
Loss (gain) on amounts funded in respect of employee	(4)	5	(1)	(85)
Changes in operating asset and liability items:				
Increase in accounts receivable – trade	(543)			(543)
Decrease (increase) in accounts receivable – other	400	(440)	606	(259)
Increase (decrease) in accounts payable and accruals	133	499	(20)	3,087
Increase in deferred gain	1,597			1,597
Net cash used in operating activities (a)	(14,495)	(13,326)	(15,712)	(77,452)
Cash Flows from Investing Activities:				
Short-term deposits, net	7,193	14,724	1,058	(10,136)
Long-term deposits, net	46	(20)	2	(113)
Investment in available for sale securities		(71)	(1,219)	(3,363)
Proceeds from sales of available for sale securities	722	1,048	716	3,773
Severance pay funded	(136)	(112)	(97)	(841)
Purchase of property and equipment	(180)	(81)	(659)	(3,983)
Proceeds from sale of property and equipment	5	2	8	122
Net cash provided by (used in) investing activities – brought forward	7,650	15,490	(191)	(14,541)

The accompanying notes are an integral part of the financial statements.

US dollars in thousands	Year ended 31 December 2004	2003	2002	Period from 9 March 1993(b) to 31 December 2004
Net cash provided by (used in) investing activities – brought forward	7,650	15,490	(191)	(14,541)
Cash Flows from Financing Activities:				
Issuance of share capital – net of share issuance expenses	15,430			104,371
Exercise of share warrants and employee stock options	19	4	20	492
Proceeds from long-term debt				399
Proceeds from short-term debt				50
Repayment of long-term debt				(399)
Repayment of short-term debt				(50)
Net cash provided by financing activities	15,449	4	20	104,863
Net Increase (Decrease) in Cash and Cash Equivalents	8,604	2,168	(15,883)	12,788
Balance of Cash and Cash Equivalents at Beginning of Period	4,184	2,016	17,899	
Balance of Cash and Cash Equivalents at End of Period	12,788	4,184	2,016	12,788
Supplementary information on financing activity not involving cash flows – conversion of convertible subordinated debenture into shares				1,700
Supplemental disclosures:of cash flow information:				
Income taxes paid (mainly – tax advance in respect of excess expenses)	107	161	79	321
Interest paid				350
(a) Including effect of changes in the exchange rate on cash	(73)	(9)	(709)	(1,839)

(b) Incorporation date, see note 1a.

The accompanying notes are an integral part of the financial statements.

Note 1 - Significant Accounting Policies

a. General:

1) XTL Biopharmaceuticals Ltd. ("the Company") was incorporated under the Israel Companies Ordinance on 9 March 1993. The Company is a development stage company in accordance with Financial Accounting Standard 7 ("FAS") "Accounting and Reporting by Development Stage Enterprises".

   The Principal activity of the Company is the development of therapeutic pipelines or the treatment of infectious diseases.

   The Company has licensed its product HepeX™-B to Cubist Pharmaceuticals, Inc. (hereinafter "Cubist") during 2004, see notes 1j and 2 as to details of the agreement.

   The Company has a wholly-owned subsidiary in the United States – XTL Biopharmaceuticals Inc. ("Subsidiary"), which was incorporated in 1999 under the law of the state of Delaware. The subsidiary is primarily engaged in clinical activities and business development.

2) Through 31 December 2004, the Company has incurred losses in an aggregate amount of US$86 million. Such losses have resulted from the Company's activities as a development stage company. It is expected that the Company will be able to finance its operations from its current reserves for the coming year. Continuation of the Company's current operations after utilizing its current cash reserves during 2006 is dependent upon the generation of additional financial resources either through agreements for the commercialization of its product portfolio or through external financing.

3) The consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States.

4) The preparation of the financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported expenses during the reporting periods. Actual results may vary from these estimates.

b. Functional currency

The currency of the primary economic environment in which the operations of the Company are conducted is the US dollar ("$" or "dollar").

Most of the Company's research and development expenses are incurred in dollars. A significant part of the Company's capital expenditures and most of its financing is in dollars.

Thus, the functional currency of the Company is dollar.

Since the US dollar is the primary currency in the economic environment in which the Company operates, monetary accounts maintained in currencies other than the U.S. dollar (principally cash and liabilities) are remeasured using the representative foreign exchange rate at the balance sheet date. Operational accounts and nonmonetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are reported in current operations and have not been material to date.

c. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany transactions and balances were eliminated in consolidation.

d. Impairment of long-lived assets

Pursuant to FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), long-lived assets, to be held and used by an entity, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Under FAS 144, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets held and used is less than the carrying amount of such assets, an impairment loss would be recognized, and the assets are written down to their estimated fair values. Assets "held for sale" are reported at the lower of their carrying amount or fair value less estimated costs to sell (see also note 4c).

e. Cash equivalents

Highly liquid investments, which include short-term bank deposits (up to three months from date of deposits), that are not restricted as to withdrawal or use, are considered by the Company and its subsidiary to be cash equivalents.

f. Marketable securities

Pursuant to FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company's investment in debt securities (mainly debentures) have been designated as available-for-sale. Available-for-sale securities are carried at fair value, which is determined based upon the quoted market prices of the securities, with unrealized gains and losses reported in accumulated other comprehensive income, a component of shareholders' equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in financial income. The Company views its available-for-sale portfolio as available for use in its current operations. Interest, premium and discount amortization, and dividends on securities classified as available-for-sale are included in financial income.

g. Property and equipment

These assets are carried at cost less depreciation and impairment charges. Depreciation is computed using the straight-line method over the estimated useful life of the assets.

Annual rates of depreciation are as follows:

	%
Laboratory equipment	10-20 (mainly 15)
Computers	33
Furniture and office equipment	6-15

Leasehold improvements are amortized by the straight-line method over the term of the lease, which is shorter than the estimated useful life of the improvements.

h. Deferred income taxes

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred tax balances are computed using the tax rates expected to be in effect when these differences reversed. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Paragraph 9(f) of FAS 109, "Accounting for Income Taxes", prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

i. Research and development costs and participations

Research and development costs are expensed as incurred and consist primarily of personnel, payments to sub-contractors, facilities, equipment and supplies for research and development activities.

Participations from government (and from others) for development of approved projects are recognized as a reduction of expense as the related costs are incurred (see also note 7).

j. Revenue Recognition

The Company recognizes the revenue from the licensing agreement with Cubist (see also note 2) under the provisions of the EITF 00-21 entitled "Revenue Arrangements with Multiple Deliverables" and SAB 104 entitled "Revenue Recognition". Under those terms, companies are required to defer all revenue from multiple-element arrangements if sufficient objective and reliable evidence of fair value does not exist for the allocation of revenue to the various elements of the arrangement. Since the Company does not have the ability to determine the fair value of each unit of accounting, the agreement was accounted for as one unit of accounting, after failing the separation criteria, and the Company recognizes revenue on the abovementioned agreement ratably over the life of the arrangement.

In addition, Cubist has requested the Company to provide development services that are reimbursed by Cubist. As required by EITF 01-14 "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred", amounts paid by the Company, as a principal, as an "out-of-pocket" costs are included in the cost of revenues as reimbursable out-of-pocket expenses and the reimbursements the Company receives as a principal are reported as reimbursed out-of–pocket revenues.

k. Business Development costs

Costs associated with Business Development are comprised of costs related to partnering activities for the Company's programs and seeking for new research and development collaborations. The Business Development expenses are expensed as incurred.

l. Loss per share ("LPS")

Basic and diluted losses per share are presented in accordance with FAS No. 128. "Earnings per share" ("FAS 128"), for all the years presented. Outstanding share options, and warrants have been excluded from the calculation of the diluted loss per share because all such securities are antidilutive for all the years presented. The total number of ordinary shares related to outstanding options and warrants excluded from the calculations of diluted net loss per share were 18,187,062, 17,721,724 and 19,789,011 for the years ended 31 December 2004, 2003 and 2002, respectively.

m. Comprehensive loss

Comprehensive loss, presented in shareholders' equity consists of net loss for the period and net unrealized gains or losses on available for sale marketable securities.

n. Stock-based compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method in accordance with provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and Financial Accounting Standards Board Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans ("FIN 28"), and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("FAS 123") as amended by FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (see also p below).

Under APB 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's common stock and the exercise price. When the number of the underlying shares or the exercise price is not known at the grant date, the Company updates each period the compensation expenses until such data becomes known.

FAS 123 defines a "fair value" based method of accounting for an employee stock option. The pro-forma disclosures of the difference between the compensation expense included in net loss and the related cost measured by the fair value method are presented below.

The alternative method to the intrinsic value method of accounting for stock-based compensation is the fair value approach prescribed by FAS 123, as amended by FAS 148. If the Company followed the fair value approach, the Company would be required to record deferred compensation based on the fair value of the stock option at the date of grant. The fair value of the stock option is required to be computed using an option-pricing model, such as the Black-Scholes option valuation model, at the date of the stock option grant. The deferred compensation calculated under the fair value method would then be amortized over the respective vesting period of the stock option.

The following table illustrates the effect on loss and loss per share assuming the Company had applied the fair value recognition provisions of FAS 123 to its stock-based employee compensation:

	Year ended 31 December			Period from 9 March 1993* to 31 December
US dollars in thousands (except per share data)	2004	2003	2002	2004
Net loss for the period, as reported	16,473	14,288	17,140	85,776
Deduct: stock-based employee compensation expense, included in reported loss				(483)
Add: stock-based employee compensation expense determined under fair value method for all awards	239	821	1,297	6,355
Net loss – pro-forma	16,712	15,109	18,437	91,648
Basic and diluted loss per share:				
As reported	0.12	0.13	0.15	
Pro-forma	0.12	0.14	0.17	

* Incorporation date, see note 1a.

Refer to note 6b(2) for the assumptions that were included in the Black-Scholes option valuation calculation.

The Company accounts for equity instruments issued to non-employees in accordance with the fair value method prescribed by FAS 123 and the provisions Emerging Issues Task Force Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services ("EITF 96-18").

o. Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

p. Recently issued accounting pronouncements in the United States:

(1) FAS 123 (Revised 2004) Share-based Payment

In December 2004, the Financial Accounting Standards Board ("FASB") issued the revised Statement of Financial Accounting Standards ("FAS") No. 123, Share-Based Payment (FAS 123R), which addresses the accounting for share-based payment transactions in which the Company obtains employee services in exchange for (a) equity instruments of the Company or (b) liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments. This Statement eliminates the ability to account for employee share-based payment transactions using APB 25, and requires instead that such transactions be accounted for using the grant-date fair value based method. This Statement will be effective as of the beginning of the first interim or annual reporting period that begins after 15 June 2005. Early adoption of FAS 123R is encouraged. The company decided to adopt this statement on 1 January 2005. This Statement applies to all awards granted or modified after the Statement's effective date. In addition, compensation cost for the unvested portion of previously granted awards that remain outstanding on the Statement's effective date shall be recognized on or after the effective date, as the related services are rendered, based on the awards' grant-date fair value as previously calculated for the pro-forma disclosure under FAS 123 (see also n above).

The Company estimates that the cumulative effect of adopting FAS 123R as of its adoption date by the Company (1 January 2005), based on the awards outstanding as of 31 December 2004, will be approximately $22,000. The Company expects that upon the adoption of FAS 123R, the Company will apply the modified prospective application transition method, as permitted by the Statement. Under such transition method, upon the adoption of FAS 123R, the Company's financial statements for periods prior to the effective date of the Statement will not be restated.

The Company expects that this statement may have material effect on it's financial position and results of operations. The impact of this statement on the Company's financial statements or its results of operations in 2005 and beyond will depend upon various factors, among them the Company's future compensation strategy (see also note 11).

(2) FAS 153 Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29

In December 2004, the FASB issued FAS No. 153, Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29 (FAS 153). FAS 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions (Opinion 29). The amendments made by FAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the exception for nonmonetary exchanges of similar productive assets and replace it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions in FAS 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after 15 December 2005 (1 January 2006 for the Company). Early application of the FAS 153 is permitted. The provisions of this Statement shall be applied prospectively. The Company does not expect the adoption of FAS 153 to have a material effect on the Company's financial statements or its results of operations.

Note 2 - License Agreement with Cubist

The Company entered into a licensing agreement with Cubist in June 2004, under which the Company granted to Cubist an exclusive, worldwide license (with the right to sub-license) to commercialize HepeX™-B and any other product containing a hMAb or humanized monoclonal antibody or fragment directed at the hepatitis B virus owned or controlled by the Company. See also note 1j for the revenue recognition treatment.

Cubist paid the Company an initial up front nonrefundable payment of US$1 million upon the signing of the agreement, and a payment of US$1 million (out of which $185 thousands was recorded as revenue in the year ended 31 December 2004) out of an aggregate amount of US$2 million as collaboration support to be paid in installments until the end of 2005 and an additional amount of US$3 million upon achievement of certain regulatory milestones till 2007 or an amount of US$2 million upon achievement of the same certain regulatory milestones till 2008.

The Company accounts for the payments resulting from the agreement, as follows (i) the $1 million up front fee and the installment payments aggregating $2 million are recorded as deferred revenue upon receipt and amortized through 2008 or date regulatory approval obtained, if earlier, and (ii) the milestone contingent payments will be recorded as revenue upon regulatory approval milestones obtained.

Under the agreement, the Company is entitled to receive royalties from net sales by Cubist, if any, generally ranging from 10% to 17%, depending on levels of net sales achieved by Cubist, subject to certain deductions based on patent protection of HepeX™-B in that territory, total costs of HepeX™-B development, third party license payments and indemnification obligations.

The agreement expires on the later of the last valid patent claim covering Hepex™-B to expire, or 10 years after the first commercial sale of Hepex™-B on a country by country basis.

Under a research and license agreement (see note 7 a(1) for details), the Company paid during 2004, $250 thousands with respect to the $1 million up front fee received in June 2004, out of which $32 thousands was recorded as cost of revenues in 2004.

The balance of the deferred gain, related to the revenue from Cubist, as of 31 December 2004, was presented in the balance sheet, net of the above mentioned payment, as follows:

US dollars in thousands	31 December 2004
Deferred revenue	1,815
Less – Deferred expenses related to Yeda	218
Deferred gain	1,597

For the commitment to the Government of Israel, related to the transfer of manufacturing rights of the Company's HepeX™-B product, under the terms of the agreement with Cubist, see note 7a(3).

Note 3 - Investment in Associated Company

During March 2001, the Company acquired 20% of the shares of US based iviGene Corporation (hereafter – iviGene) for $1 million and agreed to fund certain research activities at iviGene. The acquisition of shares and the ongoing funding were charged to Research and Development costs in the statement of operations. During 2002, the Company terminated funding research activities at iviGene. The Company had an option to acquire the remaining shares of iviGene for $4 million in cash and $16 million in the Company's shares. This option expired in 2002.

The Company will not have the title for benefits from future developments beyond its holding rights, or any obligations to fund the operations of iviGene.

Note 4 - Property and Equipment:

a. Composition of the assets, grouped by major classifications, is as follows:

	31 December	
US dollars in thousands	2004	2003
Cost:		
Laboratory equipment	1,828	1,727
Computers	517	497
Leasehold improvements	698	698
Furniture and office equipment	269	221
	3,312	3,143
Accumulated depreciation and amortization:		
Laboratory equipment	1,120	932
Computers	488	438
Leasehold improvements	691	639
Furniture and office equipment	105	81
	2,404	2,090
	908	1,053

b. Depreciation and amortization totaled $319,000, $440,000 and $470,000 in the years ended 31 December 2004, 2003 and 2002, respectively.

c. Asset held for sale

During 2003, the Company's management determined to put on hold early stage research activities, and consequently, to sell an asset used in one of these activities. Under the provisions of FAS 144, the Company's management reviewed the carrying value of this asset (original cost $415,000, depreciated amount – $354,000) and determined to write it off. An impairment charge in an amount of $354,000 was recorded.

Note 5 - Employee Rights upon Retirement:

a. The Company

Israeli labor law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The following principal plans relate to the Company:

1) On 30 June 2001 the Company entered into an agreement with each employee implementing Section 14 of the Severance Compensation Act, 1963 (the "Law") and the General Approval of the Labor Minister issued in accordance to the said Section 14, mandating that upon termination of such employee's employment, the Company shall release to the employee all the amounts accrued in its Insurance Policies. Accordingly, the Company remits each month to each of its employee's Insurance Policy, the amounts required by law to cover the severance pay liability.

   The severance pay liabilities covered by these contribution plans are not reflected in the financial statements as the severance pay risks have been irrevocably transferred to the severance funds.

2) Insurance policies for certain employees (senior managers); the policies provide most of the coverage for severance pay and pension liabilities of managerial personnel, the remainder liabilities are covered by the Company.

   The Company has recorded a severance pay liability for the amount that would be paid if all those employees were dismissed at the balance sheet date, on an undiscounted basis, in accordance with Israeli labor law. This liability is computed based upon the number of years of service multiplied by the latest monthly salary. The amount of accrued severance pay represents the Company's severance pay liability in accordance with labor agreements in force and based on salary components, which in management's opinion, create an entitlement to severance pay.

   The Company may only utilize the insurance policies for the purpose of disbursement of severance pay.

b. The subsidiary

The subsidiary's severance pay liability is calculated based on the agreements between the subsidiary and its employees.

c. Severance pay expenses

Severance pay expenses totaled $30,000, $129,000 and $333,000 for the years ended 31 December 2004, 2003 and 2002, respectively.

Loss (gain) on amounts funded in respect of employee rights upon retirement totaled $(4,000), $5,000 and $(1,000) for the years ended 31 December 2004, 2003 and 2002, respectively.

d. Cash flow information regarding the Company's liability for employee rights upon retirement:

1) The Company contributed in 2004, 2003 and 2002 to the insurance companies in respect to its severance pay obligations to Israeli employees, $276,000, $348,000 and $327,000, respectively, and expects to contribute, in 2005, $290,000 to the insurance companies in respect to its severance pay obligations to Israeli employees.

2) The Company expects to pay between 2012 to 2014 future benefits to certain employees who have reached retirement age during these years in the amount of $61,000.

The above amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

Note 6 - Shareholders' Equity:

a. Share Capital

As of 31 December 2004, the shares are traded on the London Stock Exchange. The quoted price per share, as of 31 December 2004 is 25.25p (US $0.45).

On 10 August 2000, the Company raised in a private offering an amount of $16.7 million – 15,183,590 ordinary shares of NIS0.02.

Prior to the Company's Initial Public Offering ("IPO"), of its Ordinary Shares on the London Stock Exchange, see also below, all classes of shares were respectively reclassified as 30,000,000 authorized Ordinary Shares of nominal value of NIS0.2 each, of which 7,106,381 Ordinary Shares of NIS0.2 each were issued and outstanding.

On 10 August 2000, the Company split the share capital so that each Ordinary Share of NIS0.2 shall be divided into 10 Ordinary Shares of NIS0.02 each, so that following the split, the authorized share capital consists of 300,000,000 Ordinary Shares of NIS0.02 each, of which 71,063,810 Ordinary Shares of NIS0.02 each were issued and outstanding.

On 20 September 2000 the Company completed an IPO, as result of which 20,900,000 Ordinary Shares of NIS0.02 each have been issued. The proceeds of the issuance of shares in the amount of £31.3 million (before deduction of share issue expenses) were received as $44.7 million. The underwriters of the IPO were granted an option. Accordingly, on 26 October 2000, the Company issued 2,850,000 Ordinary Shares of NIS0.02 for a consideration of $6.2 million (before deduction of share issue expenses) at the price of £1.5 per share or $2.1 per share (the IPO price) to meet over-allotments in connection with the placing.

On 2 August 2004, the Company completed a Placing and Open Offer for new ordinary shares, as result of which 56,009,732 Ordinary shares of NIS0.02 each have been issued. The gross proceeds of the issuance of shares amount to £9.8 million – $17.8 million (approximately £8.5 million – $15.4 million, net of issuance costs).

b. Summary of the Company's stock options

In May 2001, the Company's Board of Directors approved a stock option plan for employees of the Company and its subsidiary (hereafter – the 2001 plan), according to which up to 11,000,000 options are available to be granted. Under this plan, each option is exercisable to purchase one ordinary share of NIS0.02 par value of the Company. The lock up period of the options is two years from the date of grant. As of 31 December 2004, the remaining number of options available for future grants in this pool is 6,250,600. Other than the option available for future grants for the 2001 plan, there are no option available for future grants for previous plans.

1) The following table summarizes information about stock options granted from the date of incorporation (9 March 1993) to 31 December 2004:

Grant number	The grantees	Grant date	Number of options	Exercise price per share	Vesting period
1	Employees of the Company	May 1995	900,900	NIS0.02	4 years period on a yearly basis
2	Employees of the Company	Feb 1997	3,955,090	$0.365	4 years period on a yearly basis
3	Employees of the Company	Aug 1998	423,680	$0.497	4 years period on a yearly basis, starting 3 Dec 1997
4	Senior officers of the Company	Oct 1998	5,038,360	$0.497	4 years period on a monthly basis
5	Employees of the Company and its subsidiary	Jun 1999	1,672,500	$0.497	4 years period on a yearly basis
6	Senior officers of the Company	Aug 1999	678,720	$0.497	4 years period on a monthly basis
7	Employees of the Company and its subsidiary	Apr 2000	1,870,000	$1.1	4 years period on a monthly or yearly basis
8	Employees of the Company and its subsidiary	May 2001	1,942,900	$0.931	3 years period on a yearly basis starting May 2003
9	Employees of the Company and its subsidiary	Sep 2001	306,400	$0.766	3 years period on a yearly basis starting Sep 2003
10	Employees of the Company and its subsidiary	Mar 2002	425,800	$0.851	3 years period on a yearly basis starting Mar 2004
11	Employees of the Company and its subsidiary	Sep 2002	877,400	$0.482	3 years period on a yearly basis starting Sep 2004
12	Employees of the Company and its subsidiary	Feb 2003	699,900	$0.1055	3 years period on a yearly basis starting Feb 2005
13	Employees of the Company and its subsidiary	Sep 2003	125,000	$0.25	3 years period on a yearly basis starting Sep 2005
14	Employees of the company	Mar 2004	103,200	$0.486	3 years period on a yearly basis starting Mar 2006
15	Employees of the company	Sep 2004	148,800	$0.315	3 years period on a yearly basis starting Sep 2006
16	Senior officer of the company	Oct 2004	120,000	$0.243	3 years period on a yearly basis starting Oct 2006

In addition, on May 2001, the Company granted 2,120,000 options to senior officers and directors without consideration, with an exercise price of $0.931 (par value) each.

These senior officers and directors were entitled to exercise the options based on achievement of certain performance conditions. According to the performance criterias, only one third of the conditions were achieved and therefore, two thirds were expired.

The Company applied "variable-plan" accounting treatment in respect of this grant.

General conditions:

(1) All options were granted without consideration.

(2) The options are exercisable over a period of 10 years, from the grant date.

2) Stock Options granted are as follows:

	Number	Weighted average exercise price US$	Number	Weighted average exercise price US$	Number	Weighted average exercise price US$
	Year ended 31 December					
	2004		2003		2002	
Balance outstanding at beginning of year	15,552,661	0.59	17,816,823	0.61	17,279,890	0.62
Changes during the year:						
Granted *	372,000	0.34	824,900	0.13	1,303,200	0.61
Exercised	(50,000)	0.365	(854,100)	0.01	(38,326)	0.50
Expired and forfeited	(129,000)	0.68	(2,234,962)	0.83	(727,941)	0.83
Balance outstanding at end of year	15,745,661	0.58	15,552,661	0.59	17,816,823	0.61
Balance exercisable at end of year	14,059,136	0.60	9,960,260	0.45	12,083,088	0.48

* The options exercise price was equal to the share price in the grant date.

The weighted average fair value of options granted during the year, estimated by using the Black & Scholes option-pricing model, was $0.10, $0.07 and $0.08 for the year ended 31 December 2004, 2003 and 2002, respectively. The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions: dividend yield of 0% for all relevant years; expected volatility of: 2004 – 35%, 2003 – 45% and 49% for 2002; risk-free interest rates (in dollar terms) of: 2004 – 2.9%, 2003 – 2.75% and 2.9% for 2002; and expected lives of 2 to 4 years, for all the reported years, depending on the vesting period of the options.

3) The following table summarizes information about stock options outstanding and exercisable at 31 December 2004:

	Options outstanding		Options exercisable	
	Balance at 31 December 2004	Weighted average remaining contractual life	Balance at 31 December 2004	Weighted average remaining contractual life
	Number	In years	Number	In years
Excercise prices:				
NIS0.02	2,600	0.22	2,600	0.22
US$0.1055	537,400	8.16		
US$0.243	120,000	9.20		
US$0.25	125,000	8.68		
US$0.315	148,800	9.33		
US$0.365	3,511,780	2.11	3,511,780	2.11
US$0.482	711,400	7.68	313,016	7.68
US$0.486	103,200	9.75		
US$0.497	6,395,880	3.66	6,395,880	3.66
US$0.766	147,600	6.71	113,652	6.71
US$0.851	167,000	7.20	101,035	7.20
US$0.931	2,049,701	6.38	1,895,873	6.38
US$1.1	1,725,300	5.28	1,725,300	5.28
	15,745,661		14,059,136	

c. Share Purchase Options:

1) According to specific agreements signed with consultants, directors and members of the Scientific Advisory Board, the Company has granted them options to purchase ordinary shares as described below. These shares are not part of the plans described in b. above. Each option entitles the holder to purchase one ordinary share of NIS0.02 par value of the Company.

The following table summarizes information about share purchase options granted.

	31 December		
	2004	2003	2002
	Number of options		
Balance outstanding at beginning of year	2,205,000	2,280,000	2,430,000
Changes during the year:			
Granted	380,000		
Forfeited	-,-	(75,000)	(150,000)
Total at end of year (1)	2,585,000	2,205,000	2,280,000
(1) Exercise price:			
US$0.497-0.538	930,000	930,000	930,000
US$2.11	1,275,000	1,275,000	1,350,000
US$0.238-0.306	380,000		
	2,585,000	2,205,000	2,280,000
Exercisable by year end:			
Exercise price:			
US$0.497-0.538	922,188	894,063	847,188
US$2.11	1,275,000	1,275,000	1,125,000
US$0.238-0.306	75,901		
	2,273,089	2,169,063	1,972,188

The charges for stock compensation relating to options granted to consultants were $32,000 in 2004 (of which $30,000 was charged to research and development costs, and $2,000 was charged to general and administrative expenses).

See note 6b(1) for the weighted average assumptions used in the calculation of Black & Scholes option-pricing model.

Note 7 - Commitments and Contingencies:

a. Royalty Bearing Agreements:

1) Under a Research and License agreement with Yeda Research and Development Company Ltd. (hereinafter "Yeda"), the Company is committed to pay royalty payments at rates determined in the agreement not exceeding 3% of net sales, or royalty rates mainly between 20% to 25% of sublicensing fees, for products in development and research under such an agreement. (See also note 2).

2) Although the Company usually conducts its own research and development, it also enters where appropriate into participation agreements with third parties in respect of particular projects. In connection with such agreements the Company may incur royalty and milestone obligations commitments at varying royalty rates not exceeding 5% of future net sales or 25% of sublicensing fees of products developed, based on such agreements.

3) The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. At the time grants were received, successful development of the related projects was not assured. In the case of failure of a project that was partly financed as above, the Company is not obligated to pay any such royalties. Under the terms of company's funding from the Israeli Government, royalties of 3% – 5% are payable on sales of products developed from projects so funded, up to 100% of the amount of the grant received by the Company (dollar linked); as from 1 January 1999 – with the addition of an annual interest based on Libor.

At 31 December 2004, the maximum amount of the contingent liability in respect of royalties related to ongoing projects to the government is $3,683,000.

In addition, the Company has received the approval of the Government of Israel for the transfer of manufacturing rights of its HepeX™-B product, under the terms of the agreement with Cubist (see note 2). As a consequence, thereof, the Company is obligated to re-pay the grants received from the Government of Israel for the financing of the HepeX™-B product from any amounts received by the Company from Cubist due to the sales of HepeX™-B product, at a percentage rate per annum calculated based on the aggregate amount of grants received from the Government of Israel divided by all amounts invested by the Company in the research and development activities of HepeX™-B, and up to an aggregate amount of 300% of the original amounts received for such project, including interest at the Libor rate. As of 31 December 2004, the aggregate amount received from the Government of Israel for the financing of the HepeX™-B project including interest and Libor rate is equal to $4,145,000

4) The Company entered into a licensing agreement with Cubist, see notes 2 and a(3) above for details.

b. Rental Commitments:

1) Premises occupied by the Company in Israel are rented under operating lease agreements until 2006, with an option to renew the lease agreements till 2007.

Future minimum rental payments under these agreements (dominated in US dollars) are as follows:

US dollars in thousands	31 December 2004
In 2005	306
In 2006	355
In 2007	366
	1,027

To secure the lease agreements in Israel, the Company provided a bank guarantee. As of 31 December 2004, the guarantee is secured by pledge on a long-term deposit amounting to $113,000 (31 December 2003 – $159,000) linked to the Israeli Consumer Price Index (hereafter – CPI), which is included in the balance sheet as long-term deposit.

Premises occupied by the subsidiary in the US are on a monthly renewal basis.

Rental expenses during the year ended 31 December 2004 amounted to $394,000, 31 December 2003 – $427,000 and 31 December 2002 – $362,000.

2) The Company leases vehicles under the terms of certain operating lease agreements. These agreements expire in the years 2006 and 2007.

Future minimum lease payments – linked to the CPI – are as follows:

US dollars in thousands	31 December 2004
In 2005	75
In 2006	72
In 2007	49
	196

Vehicles expense during the year ended 31 December 2004 amounted to $84,000, 31 December 2003 – $105,000 and 31 December 2002 – $121,000.

c. Other Commitments

The Company has commitments to pay amounts aggregating $1,129,000 in respect of research and development costs (mainly for subcontractors) for the year 2005.

Note 8 - Taxes on Income:

a. The Company

Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985:

Under this law, results for tax purposes are measured in real terms, having regard to the changes in the CPI. The Company is taxed under this law.

Results for tax purposes are measured on a real basis – adjusted for the increase in the Israeli CPI. As explained in note 1b, the financial statements are presented in dollars. The difference between the change in the Israeli CPI and the NIS-dollar exchange rate – both on annual and cumulative bases – causes a difference between taxable income and income reflected in these financial statements (see also note 1i).

Tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959 (hereinafter – the Law)

The Company has been granted an "approved enterprise" status under the law. Income derived from the approved enterprise during a period of 10 years from the year in which this enterprise first realize taxable income, provided the maximum period to which it is restricted by the law has not elapsed, is entitled to tax benefits as follows:

Tax exemption for 2 years and reduced tax rate for the remaining 8 years. The Company has not yet incurred taxable income. The reduced tax rate is dependent upon the percentage of foreign-owned holdings (10% – 25%). Since the Company is currently over 49% foreign owned, it is entitled to reduced tax at the rate of 20%.

The Company has an "approved enterprise" plan from 2001. The expiration of this plan is in 2015.

If the Company distributed dividends from income derived from the approved enterprise during the period when it was tax exempt, the applicable tax rate will be 20%.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the law, regulations published there-under and the instruments of approval for the specific investment in approved enterprise. In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, with the addition of interest.

Tax benefits under the Israeli law for the Encouragement of Industry (Taxation), 1969

The Company qualifies as "industrial company" under the above law. In accordance with this law the Company is entitled to certain benefits including accelerated depreciation on industrial buildings and equipment, a deduction of 12.5% per year of the purchase price of a good-faith acquisition of patent and certain other intangible property rights.

Tax rates in Israeli applicable to income from other sources

Income not eligible for "approved enterprise" benefits, mentioned above, was taxed at the regular rate of 36% through 31 December 2003. In July 2004, an amendment to the Israeli Income Tax Ordinance was enacted. One of the provisions of this amendment is that the corporate tax rate is to be gradually reduced from 36% to 30%, in the following manner: the rate for 2004 will be 35%, in 2005 – 34%, in 2006 – 32%, and in 2007 and thereafter – 30%. Currently, it is not applicable to the Company.

b. The subsidiary

The US subsidiary is taxed according with US tax laws.

c. Current tax losses for tax purposes:

1) Company

Income tax of the Company is computed on the basis of the income in Israeli currency as determined for statutory purposes.

The Company incurred losses for tax purposes from inception.

The carryforward tax loss for tax purposes at 31 December 2004 is approximately $92 million (linked to the CPI), which may be offset against future taxable income, (including capital gains) with no expiration date.

2) Subsidiary

The US subsidiary is taxed under the applicable US tax laws, and is working under a Cost Plus agreement with the Company. The subsidiary has incurred taxable income and recorded tax expenses.

3) The following table summarizes the taxes on income for the Company and its subsidiary for 2004, 2003 and 2002:

US dollars in thousands	2004		2003		2002	
	Company	Subsidiary	Company	Subsidiary	Company	Subsidiary
Gain (loss) before taxes on income	(16,582)	158	(14,327)	117	(17,211)	98
Taxes on income		49		78		27
Net gain (loss) for the year	(16,582)	109	(14,327)	39	(17,211)	71

d. Deferred income taxes

As of 31 December 2004, the Company had no tax exempt income. Virtually all of the Company temporary differences are in respect to carryforward tax losses. The Company expects that during the period its tax losses would be utilized, its income will be substantially tax exempt.

Accordingly, no deferred tax assets have been included in these financial statements in respect to the Company's carryforward tax losses.

e. Reconciliation of the theoretical tax expense to actual tax expense

The main reconciling item, between the statutory tax rate of the Company and the effective rate is the non-recognition of tax benefits from carryforward tax losses due to the uncertainty of the realization of such tax benefits (see above).

f. Tax assessments

The Company received tax assessments for the years up to and including the 1998 tax year.
The subsidiary has not been assessed for tax purposes since incorporation.

Note 9 - Supplementary Financial Statement Information:

a. Short-term bank deposits

The deposits are denominated in dollar and bear a weighted average annual interest rate of 1.81% as of 31 December 2004 (as of 31 December 2003 – 1.17%).

b. Marketable securities:

1) As of 31 December 2004, there are no marketable securities. The balance as of 31 December 2003 composed as follows:

US dollars in thousands	31 December 2003			
	Amortized cost losses	Unrealized holding gains	Unrealized holding	Estimated Fair market value
Debentures:				
Link to the Israeli CPI	71		(2)	69
Unlinked	561	19	(17)	563
	632	19	(19)	632
Sort-term treasury notes and bonds:				
Link to the USD	10			10
Unlinked	93	14		107
	103	14		117
	735	33	(19)	749

2) Changes in marketable securities held for sale are as follows:

US dollars in thousands	2004	2003	2002
Balance at beginning of year	749	1,637	1,178
Investments		71	1,219
Proceeds from sales	(722)	(1,048)	(716)
Reclassifications into earnings (loss) from other comprehensive income (loss)	(14)	62	(3)
Realized gain (loss) from sales	(13)	27	(41)
	-,-	749	1,637

US dollars in thousands	31 December 2004	2003
c. Accounts receivable – other:		
Office of the Chief Scientist of the Israeli Ministry of Industry ("OCS")	–	537
Prepaid expenses	165	119
Employees	24	36
Value Added Tax authorities	101	6
Sundry	16	8
	306	706

US dollars in thousands	31 December 2004	2003
d. Accounts payable and accruals:		
Suppliers	1,108	1,334
Accrued expenses	1,337	1,077
Institutions and employees in respect of salaries and related benefits	294	280
Provision for vacation pay and recreation pay	385	300
Sundry	10	10
	3,134	3,001

Statements of operations:

e. Research and development costs:

US dollars in thousands	Year ended 31 December 2004	2003	2002	Period from 9 March 1993 to 31 December 2004
Wages, salaries and related benefits	2,776	3,450	3,958	20,945
Sub-contractors expenses	6,430	6,799	5,575	33,856
Laboratories supplies	754	1,128	1,653	8,406
Consulting	549	494	396	3,194
Rent and maintenance	725	866	926	4,004
Depreciation and amortization	277	369	415	2,717
Other	474	562	308	2,101
	11,985	13,668	13,231	75,223

US dollars in thousands	Year ended 31 December 2004	2003	2002	Period from 9 March 1993 to 31 December 2004
f. General and administrative expenses:				
Wages, salaries and related benefits	1,890	1,244	1,704	11,080
Corporate communications	289	228	598	2,210
Professional fees	647	564	662	3,515
Director fees	243	183	181	1,387
Rent and maintenance	90	104	135	865
Communication	34	33	43	195
Depreciation and amortization	42	70	55	589
Patent registration fees	271	125	71	1,017
Other	628	554	189	2,697
	4,134	3,105	3,638	23,555
g. Business development costs:				
Wages, salaries and related benefits	410	408	567	2,501
Travel	36	136	140	742
Professional fees	364	120	209	1,043
	810	664	916	4,286
h. Financial income, net:				
Financial income:				
Interest received	297	458	1,360	8,725
Foreign exchange differences gain	67			203
Gain from available for sale securities	13	62		(13)
Other				156
	377	520	1,360	9,097
Financial expenses:				
Foreign exchange differences loss		148	733	1,921
Interest paid				374
Loss from available for sale securities			3	14
Other	25	20	27	88
	25	168	763	2,397
Financial income, net	352	352	597	6,700

Note 10 - Financial Instruments and Risk Management:

a. Linkage terms of balances in non-dollars currency:

1) As follows:

US dollars in thousands	31 December 2004	
	Israeli Currency Unlinked	Other
Assets	837	432
Liabilities	1,458	237

The above balances do not include Israeli currency balances linked to the dollar.

2) Data regarding the changes in the exchange rate of the dollar and the Israeli CPI:

US dollars in thousands	31 December 2004	2003	2002
Devaluation (evaluation) of the Israeli currency against the dollar	(1.6)%	(7.6)%	7.3%
Changes in the Israeli CPI	1.2%	(1.9)%	6.5%
Exchange rate of one dollar (at end of year)	NIS4.308	NIS4.379	NIS4.737

b. Fair value of financial instruments

The financial instruments of the Company and of its subsidiary consist of non-derivative assets and liabilities, included in working capital.

In view of their nature, the fair value of this financial instruments is usually identical or close to their carrying value.

c. Concentration of credit risks

Most of the Company's and its subsidiary cash and cash equivalents and short-term investments at balance sheet dates were deposited with Israeli banks. The Company is of the opinion that the credit risk in respect of those balances is remote.

Note 11 - Subsequent Event:

A holder of 10.11% of the Company, proposed to the Extraordinary General Meeting (EGM) to be held on 24 February 2005, to grant to one non-Executive director and one individual proposed to be appointed as a non-Executive director, options to purchase an aggregate of 11,250,000 ordinary shares under certain terms and conditions including vesting based on the increase of the Company's valuation.
Based on a legal opinion received by the Company, the process for approval of such options has not met the requirements of the Israeli Companies Act – 1999 and the Listing Rules of the UKLA, and is therefore invalid.

XTLbio

Israel (HQ)
Kiryat Weizmann
Science Pk, Bldg 3
POB 370, Rehovot 76100
Tel: +972-8-930-4444
Fax: +972-8-930-4445

Massachusetts, USA
275 Grove St.
Suite 2-400
Newton, MA 02466
Tel: +1-617-663-5749
Fax: +1-617-663-5353

North Carolina, USA
2530 Meridian Pkwy
Suite 200
Durham, NC 27713
Tel: +1-919-806-4473
Fax: +1-919-806-4774

PART V

Conquering hepatitis C in our time

XTL biopharmaceuticals Ltd Announces Fundraising to raise $17.8 million (£9.8 million)

Rehovot, Israel, 1 July 2004 – XTL Biopharmaceuticals Ltd (London Stock Exchange: XTL) (XTLbio), the Israel-based biopharmaceutical company developing drugs against hepatitis, today announced that it proposes to raise $17.8 million (£9.8 million) through an Open Offer incorporating a UK Placing, an Israeli Private Placement and a US Private Placement (the Fundraising). The New Ordinary Shares are being offered at 17.5p, a discount of 9.1% to June 30th closing price on the basis of 1 New Ordinary Share for every 2 existing Ordinary Shares held at the Record Date.

The UK Placing is being underwritten by Altium Capital Limited. Code Securities Limited is acting as financial advisor and broker in relation to the Open Offer and UK Placing.

XTLbio's main focus is the development of its two clinical programmes in phase 2 clinical studies; HepeX-B and HepeX-C are aimed at preventing Hepatitis B and Hepatitis C infections in liver transplant patients, a potential $500 million market. HepeX-B was recently licensed to US-based Cubist Pharmaceuticals Inc. who will provide development and commercialisation costs.

Following the Fundraising, XTLbio intends to focus its efforts on its two hepatitis C programmes:

- **HepeX™-C, currently in a phase 2a clinical study in Hepatits C Virus (HCV) associated liver transplant patients. XTLBio is in advanced negotiations with a third party regarding the co-development of HepeX™-C, whereby development costs will be shared by the parties.**

- **HCV-SM is XTLbio's pre-clinical programme focused on developing small synthetic drug candidates against chronic HCV infection. XTLBio intends to develop compounds through clinical proof-of-principle (phase 2) after which it intends to license such compounds for further development and commercialisation.**

Dr Martin Becker, Chief Executive Officer of XTLbio, said,

"Given current market conditions, we are delighted to have been able to raise significant new funds for the Company and to have attracted a number of top tier investors both from the UK and internationally. The recent deal with Cubist provides important validation for our technology and we look forward to taking our lead programmes through to market."

Enquiries:

XTLbio
Dr. Martin Becker
President and CEO
Tel: +972-8-930-4440

Jonathan Burgin
Chief Financial Officer
Tel: +972-8-930-4442

Code Securities
Christopher Collins
Tel: +44 207 024 2000

Financial Dynamics
Julia Phillips
Tel: +44 (0) 20 7831 3113

Background

XTL Biopharmaceuticals Ltd. is engaged in the development of pharmaceutical products for the treatment of infectious diseases, particularly the prevention and treatment of hepatitis B and C.

The Company currently has two products in clinical development, HepeX™-B and HepeX™-C. HepeX™-B is currently in a phase 2b trial and HepeX™-C is in a phase 2a trial. Both products are fully human monoclonal antibody (hMAb) products and are being developed to prevent hepatitis B and hepatitis C infection of transplanted livers in hepatitis patients. The Company has licensed HepeX™-B to Cubist and plans to partner HepeX™-C prior to commencing phase 3 trials. The Company also has a synthetic small molecules development programme in preclinical development, targeted at treating chronic hepatitis C (HCV-SM).

The Company's competitive advantage lies in its proprietary drug validation tools, in particular those it has developed for viral hepatitis B (HBV) and viral hepatitis C (HCV). These tools enable the Company to accelerate its internal product development programmes, to reduce the risk in its development pipeline and to secure rights from third parties to new drug candidates. This technology has enabled the Company to develop HepeX™-C, HepeX™-B and HCV-SM to the stage they are today.

Strategy

XTLbio's strategy is to develop treatments for the prevention of hepatitis re-infection in liver transplants as well as chronic hepatitis infections, which together represent a worldwide market estimated to be over $3 billion per annum. The Company plans to achieve this by:

- **leveraging its technology to secure rights to new drug candidates and identify proprietary new drug candidates;**
- **developing drug candidates through clinical proof of principle (usually phase 2); and**
- **commercialising clinical development products through co-development or licensing.**

Employing the above strategy, XTLbio has:

- **identified and developed two new drug candidates to phase 2, HepeX™-B and HepeX™-C;**
- **secured rights to HCV-specific small molecule drug candidates including lead candidates in preclinical development;**
- **entered into a licensing collaboration with Cubist for the commercialisation of HepeX™-B;**
- **acquired exclusive rights to a broad panel of HCV antibodies; and**
- **secured rights to bacterial targets for use in developing new monoclonal antibody drug candidates.**

Current trading and prospects

The Company's audited financial statements for the 12 months ended 31 December 2003 (the "Financial Statements") stated that the Company's liquid cash reserves were $22.4 million. Note 1a to the Financial Statements included the following statement "continuation of the Company's current operations after utilizing its current cash reserves during 2005, is dependent upon the generation of additional financial resources, either through agreements for the commercialization of its product portfolio or through external financing". The Directors believe that the HepeX™-B Collaboration and the Fundraising provide such additional financial resources.

Since the beginning the current financial year the Company has announced:

- **the establishment of a commercial agreement with Cubist for the licensing and development of HepeX™-B (the "HepeX™-B Collaboration");**
- **the grant of orphan drug status from the EMEA for HepeX™-B; and**
- **the grant of an hMAb patent for hepatitis C.**

The Company also announced the partial clinical hold of one of the dosing arms in its HepeX™-C phase 2a clinical trial. This followed a patient failing to survive a liver transplant operation. Following an examination of the final post mortem report and reports from external consultants, the Directors believe that the causal factors of the incident are unlikely to be related to the administration of HepeX™-C. The post mortem report and other information has been supplied by the Company to the US Food and Drug Administration and discussions are continuing regarding the potential resumption of the highest dosing arm of the phase 2a HepeX™-C clinical trial. The Company is in advanced negotiations with a third party regarding the co-development of HepeX™-C, whereby the Company would share development costs.

The Company's financial and trading prospects are in line with the Directors' expectations, and the Directors have no reason to believe that this will not continue for at least the rest of the current financial year.

Timetable

Record Date for entitlement under the Open Offer	**close of business on 25 June**
Latest time and date for splitting of Application Forms (to satisfy *bona fide* market claims)	**close of business on 23 July**
Latest time and date for receipt of Application Forms and payment in full under the Open Offer	**3 00 pm on 27 July**
Latest time and date for receipt of Forms of Instruction for holders of Depository Interests	**10.00 am on 28 July**
Latest time and date for receipt of Forms of Proxy	**10.00 am on 31 July**
Extraordinary General Meeting	**10.00 am on 2 August**
Dealings in New Ordinary Shares commence	**3 August**
Credit CREST accounts with Depository Interests	**3 August**
Definitive certificates for New Ordinary Shares dispatched	**by 10 August**

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd
Result of Open Offer

Rehovot, Israel, 28 July 2004 – XTL Biopharmaceuticals Ltd (LSE: XTL) ("XTLbio" or "the Company"), the Israel-based biopharmaceutical company developing drugs targeting hepatitis, today announces that its Open Offer to Qualifying Shareholders closed at 3.00 pm on Tuesday 27 July 2004.

On 1 July 2004, XTLbio announced its intention to raise proceeds of $17.8 million (£9.8 million) through an Open Offer incorporating a UK Placing, an Israeli Private Placement and a US Private Placement.

Of the 56,009,732 New Ordinary Shares offered to Qualifying Shareholders pursuant to the Open Offer, valid applications in respect of 12,262,332 New Ordinary Shares (21.9 per cent) have been received. The remaining New Ordinary Shares have been conditionally subscribed by placees under the UK Placing and subscribers under the US Private Placement and the Israeli Private Placement. The Fundraising remains conditional upon the passing of the resolutions to be proposed at the extraordinary general meeting of the Company to be held at 10.00 a.m. on 2 August 2004 and upon admission of the New Ordinary Shares to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities.

The New Ordinary Shares are expected to be admitted to the Official List at 8.00 am on 3rd August 2004.

Note: All definitions used in the Company's prospectus dated 1 July 2004 apply to this announcement.

Enquiries:

XTL Biopharmaceuticals Ltd **+972 8930 4440**
Martin Becker
Jonathan Burgin

Code Securities Limited **+44 20 7024 2000**
Christopher Collins

Financial Dynamics **+ 44 20 7269 7187**
Julia Phillips

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd EGM Statement and Announcement of successful Fundraising of $17.8 million (£9.8 million)

Rehovot, Israel, 2nd August 2004 – XTL Biopharmaceuticals Ltd (LSE: XTL) ("XTLbio" or "the Company"), the Israel-based biopharmaceutical company developing drugs targeting hepatitis, today held its Extraordinary General Meeting at 10am. All resolutions were passed in connection with the Company's fundraising to raise $17.8 million (£9.8 million) through an Open Offer incorporating a UK Placing, an Israeli Private Placement and a US Private Placement.

These shares are expected to be admitted to the Official List of the London Stock Exchange at 8.00am tomorrow, 3rd August 2004, and will rank *pari passu* with the existing class of Ordinary shares.

Dr Martin Becker, Chief Executive Officer of XTLbio, said,

"Given current market conditions, we are delighted that this fundraising has been successful and that we have received the endorsement of an impressive group of international investors. We remain strongly committed to the expeditious development of our lead clinical programmes currently in phase 2 trials, as well as progressing our highly promising programme for chronic HCV."

For further information please contact:

XTL Biopharmaceuticals Ltd **+972 8930 4440**
Martin Becker
Jonathan Burgin

Code Securities Limited **+44 20 7024 2000**
Christopher Collins

Financial Dynamics **+ 44 20 7269 7187**
Julia Phillips

XTLbio
Conquering hepatitis C in our time

XTLbio to Enroll New Patients in HepeX-C Trial

Rehovot, Israel, 20 August 2004 – XTL Biopharmaceuticals Ltd ("XTLbio" or the "Company") announced today that it has reached agreement with the FDA, to reopen the Phase 2a HepeX-C trial for prevention of re-infection in liver transplant patients with pre-existing hepatitis C (HCV) infection to enrol 8 new patients. The additional safety and efficacy data from this 8 patient cohort will enable a re-evaluation of the decision to resume the highest dosing arm of the trial. Enrollment of new patients was halted by the Company in May after one patient in the highest dosing arm of the trial did not survive the transplant operation. The Medical Examiner concluded that the cause of death was pulmonary emboli and expert consultant reviews by a hematologist and two transplant surgeons did not reveal any evidence of a drug relationship.

Clinical Status:
XTLbio plans to recruit an additional 6 patients who will each receive infusions of 240 mg HepeX-C and 2 patients who will receive placebo infusions. Additional safety and efficacy data from this 8 patient cohort will enable a re-evaluation of the decision to resume the highest dosing arm of the trial (480 mg).

Preliminary evidence of activity:
The Company believes that sustained blood levels of HepeX-C are required in order to observe antiviral activity and prevent re-infection of the transplanted liver. Daily doses of 240 mg resulted in measurable blood levels of antibody and appeared to be associated with reduced levels of HCV RNA in some patients. These data suggest that extending the period of daily administration and/or increasing the daily dose may prolong the period of antibody accumulation and result in increased levels of virus suppression.

Dr Martin Becker, XTLbio's Chief Executive Officer, said, *"We are pleased that the FDA has recommended re-opening patient enrollment with HepeX-C. After observing reduced levels of HCV in some HepeX-C treated patients at the 240 mg dose level, we are eager to establish further safety criteria for this dose before moving on to higher doses".*

Contacts:

Dr Martin Becker
President & CEO
Tel: +972 8 930 4440

Julia Phillips
Financial Dynamics
Tel: +44 20 7269 7187

Notes to Editors

About XTLbio

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

About hepatitis C

Hepatitis C is a major public health concern. The World Health Organization estimates that 170 million people worldwide are chronic carriers of the hepatitis C virus (HCV) and that 3 to 4 million people are newly infected each year. It is expected that 25 to 35% of these chronic patients will develop progressive liver disease including cirrhosis and liver cancer. Hepatitis C is the single leading cause of liver transplantation. The US Centres for Disease Control and Prevention estimate that approximately 4 million people in the United States (almost 2% of the population) have been infected with HCV, of whom, approximately 3 million are chronically ill. Hepatitis C is the cause of an estimated 8,000 to 10,000 deaths annually in the US.

About HCV-related liver transplant prophylaxis

Approximately 5% of chronic HCV patients will develop end-stage liver disease, and ultimately may require liver transplantation. Today, there is a major problem associated with HCV-related liver transplantation. Although the infected liver – the major source of viral replication – has been removed, free-floating virus in the patient's serum re-infects the healthy transplanted liver in a matter of weeks. Disease progression in re-infected patients is several times faster and, in many cases, a re-transplant becomes necessary. At present, there is no available solution to this problem.

About the treatment of chronic hepatitis C

The existing first-line chronic HCV therapy is often associated with a 50-60% success rate but it is limited by severe side effects, including anaemia, fatigue, hair loss and depression. Due to the relatively limited efficacy and toxicity of this treatment, chronic HCV is still considered to be an unmet medical need, with estimated worldwide annual sales for all products treating chronic hepatitis C reaching US$4 billion in 2004.

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd
Interim Results for the Six Months Ended 30 June 2004

XTL Biopharmaceuticals Ltd ("XTLbio" or "the Company") the Israel-based biopharmaceutical company developing drugs targeting hepatitis, today announces interim financial results for the six months ended 30 June 2004.

Highlights:

- Commercial agreement with Cubist Pharmaceuticals Inc. for the licensing and development of HepeX-B.
- With the agreement of the US FDA, XTLbio will reopen enrollment into the 240mg cohort of the Company's Phase IIa study of HepeX-C in patients with HCV who are undergoing liver transplants. Enrollment was halted voluntarily in May.
- Successful completion of $17.8 million fundraising in July.

Commenting on the results, Dr Martin Becker, Chief Executive Officer, said:

" The past six months have been a time of significant progress for the Company, with the achievement of several milestones. With our recent key alliance, a strengthened balance sheet, focused clinical programs and a strategy to penetrate the US capital markets, XTLbio is well-placed for growth."

Contacts:

XTLbio Tel: +972-8-930-4440
Dr. Martin Becker, President and CEO
Jonathan Burgin, Chief Financial Officer

Financial Dynamics Tel: +44 (0) 20 7831 3113
Julia Phillips, James Strong

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd

AGM STATEMENT

Rehovot, Israel, 13 September 2004 - XTL Biopharmaceuticals Ltd ("XTLbio" or "the Company"), the Israel-based biopharmaceutical company developing drugs targeting hepatitis, announces that at its Annual General Meeting ("AGM") held today at 12 noon, all resolutions proposed at the AGM were approved other than resolution 2 giving authority to dis-apply pre-emption rights of up to 10% of the Company's existing issued share capital. Whilst a majority of shareholders voted in favour of this resolution, it did not obtain the necessary 75% approval required by the Company's Articles of Association.

As suggested in resolutions 5-8, XTLbio will be adopting a more US and Israeli Board structure with only one Executive member of the Board, Dr Martin Becker, CEO, and five Non-Executive Directors, Dr Geoffrey Vernon, Dr Elkan Gamzu, Mr Rusi Kathoke, Dr Patricia Smith, and Mr Peter Stalker. Dr Ehud Geller, a non-executive director of XTLbio since 1996, has decided to step down from the Board due to his other commitments relating to the management of the Medica Ventures Fund. Three XTLbio executives, Mr Jonathan Burgin, Dr Shlomo Dagan and Mr Glenn Kazo, did not seek re-election to the Board in order to allow XTLbio to adopt the US and Israeli Board structure. These Board changes are effective immediately.

Commenting after the AGM Dr. Geoffrey Vernon, Chairman of XTLbio, said:

"We are grateful to shareholders for their continuing support in a year in which XTLbio has made significant achievements. Following our recent successful fund-raising in July, XTLbio is in a strong cash position with investment from a number of new top tier institutional investors from the UK, US and Israel. This stands us in good stead to continue development of our key lead programs and to develop our strategy for accessing the US capital markets."

"I would also like to thank Dr Ehud Geller for his considerable contributions to our Board over the past 8 years and those of our executives who have stepped down from the Board."

For further information please contact:

XTLbio

Dr. Martin Becker, President and CEO Tel: +972 8 930 4440
Jonathan Burgin, Chief Financial Officer

Financial Dynamics

Julia Phillips, James Strong Tel: +44 (0) 20 7831 3113

Conquering hepatitis C in our time

XTLbio to present at the UBS Global Life Sciences Conference

Rehovot, Israel, 26 September 2004 – XTL Biopharmaceuticals Ltd. ("XTLbio") today announced that it will present at the UBS Global Life Sciences Conference on Tuesday, September 28, 2004, at 08:00 a.m. ET, 02:00 p.m. Israel time, 01:00 p.m. UK time. The presentation will be webcast live and may be accessed by visiting the XTLbio website at www.xtlbio.com.

Contacts:

XTLbio Tel: +972-8-930-4440

Dr. Martin Becker, President and CEO

Jonathan Burgin, Chief Financial Officer

Financial Dynamics Tel: +44 (0) 20 7831 3113

Julia Phillips, James Strong

Conquering hepatitis C in our time

ORGANIZATIONAL CHANGES AT XTL BIOPHARMACEUTICALS

Rehovot, Israel, October 4, 2004. XTL Biopharmaceuticals, LTD (LSE: XTL) ("XTLbio" or "the Company") announced the following organizational changes:

- Dr. Martin Becker the Company"s CEO and President has relocated to XTLbio's offices in Cambridge, Massachusetts to direct the Company's commercial activities and prepare for a US listing.
- Following Dr. Becker's relocation, Mr. Craig Shore has been appointed General Manager of the Company's Israel based operations.
- The Board of Directors has accepted the resignation of Mr. Glenn Kazo, Chief Business Officer and General Manager of XTLbio's US subsidiary, XTL Biopharmaceuticals, Inc.

Dr. Martin Becker, XTLbio's CEO, commented:

"The key to XTLbio's future growth lies in advancing the Company's exciting clinical programs and commercial activities in the US. It is the Company's intention to seek a US listing in the near term. We see building a US based business as the key to the successful execution of our commercial and strategic objectives."

In addition, Becker added, *"I welcome Craig Shore as the Company's new General Manager for XTLbio, Israel. Craig's previous position was General Manager of Bristol Myers Squibb's Israeli subsidiary and his career has focused on various management roles in the pharmaceutical and healthcare industry including positions at Pfizer(Israel) and IMS (USA). The Company's origins, its continuing R&D activity and many of our shareholders are based in Israel and I look forward to working with Craig to maintain and enhance the focus of our various activities in Israel."*

With regard to Glenn Kazo's departure, Becker stated, *"Over the past five years, Glenn Kazo has been an important contributor to XTLbio's development. Glenn has been instrumental in building the Company's US operations from inception and securing key alliances for the Company including the recently announced alliance with Cubist Pharmaceuticals. We wish Glenn all the best in his new endeavors."*

For further information please contact:

XTLbio

Dr. Martin Becker, President and CEO Tel: +1 617 621 1570

Jonathan Burgin, Chief Financial Officer Tel: +972 8 930 4440

Financial Dynamics

Julia Phillips, James Strong Tel: +44 (0) 20 7831 3113

About XTLbio

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

Conquering hepatitis C in our time

XTLbio to present at the Rodman & Renshaw Techvest 6th Annual Healthcare Conference

Rehovot, Israel, 26 October 2004 – XTL Biopharmaceuticals Ltd. ("XTLbio") today announced that it will present at the Rodman & Renshaw Techvest 6th Annual Healthcare Conference on Tuesday, October 26, 2004, at 02:50 p.m. ET, 08:50 p.m. Israel time, 07:50 p.m. UK time. The presentation will be webcast live and may be accessed by visiting the XTLbio website at www.xtlbio.com.

Contacts:

XTLbio Tel: +1 617 621 1570
Dr. Martin Becker, President and CEO

Financial Dynamics Tel: +44 (0) 20 7831 3113
Julia Phillips, James Strong

About XTLbio
XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd Presents New HepeX-C Data at AASLD

Rehovot, Israel, 3 November 2004: XTL Biopharmaceuticals Ltd. (LSE: XTL) the biopharmaceutical company developing drugs to target hepatitis, has provided details of key scientific presentations it has presented at the 55th Annual Meeting of The American Association for the Study of Liver Diseases ("AASLD") in Boston, Massachusetts. AASLD (29 October – 2 November) is the premier meeting in the science and practice of hepatology where new strategies in the study and treatment of liver disease are defined.

On Tuesday, November 2, XTLbio's Vice President of Pre-clinical Research, Dr. Rachel Eren, delivered an Oral Presentation titled *"Preclinical Evaluation Of Two Neutralizing Human Monoclonal Antibodies Against HCV: A Potential Treatment To Prevent HCV Re-Infection In Liver Transplant Patients."*

Dr. Eren provided new pre-clinical information about two monoclonal antibodies against the hepatitis C virus: HCV-Ab68 (presently in a Phase 2 clinical trial) and HCV-Ab65 (under preclinical evaluation). Data presented by Dr. Eren demonstrated that the two antibodies had complementary activity and that a mixture of both antibodies can effectively neutralize the Hepatitis C virus in serum from patients with chronic HCV. Dr. Eren concluded that this data is supportive of using a combination of these two antibodies for preventing HCV infection in liver transplant patients.

Separately, XTLbio also presented Poster #514 on *"Changes In HCV-RNA Following Administration Of Monoclonal Antibody HCV-Ab68 To Patients With Chronic HCV Infection"* - the analysis of data from a phase I clinical study with HCV-Ab68 in patients with chronic HCV. The analysis indicated that administration of the highest dose studied in this trial (120mg of HCV-Ab68) was the first to result in a measurable increase in antibody levels to the hepatitis C virus. This increase was correlated with a reduction in HCV-RNA. This analysis provides further encouraging evidence regarding the antibody's antiviral activity.

Dr. Martin Becker, the CEO of XTLbio said, *"We are encouraged by the preclinical results indicating enhanced viral neutralization using two human monoclonal antibodies against the hepatitis C virus. The Company intends to submit an IND for using an Ab68 and Ab65 mixture in chronic hepatitis C patients for a phase 1 safety study prior to further studies in patients with HCV undergoing liver transplantation."*

Contacts:

XTLbio
Dr. Martin Becker, President and CEO Tel: +1 617 621 1570

Financial Dynamics
Julia Phillips, James Strong Tel: +44 (0) 20 7831 3113

About XTLbio
XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

About hepatitis C
Hepatitis C is a major public health concern. The World Health Organization estimates that 170 million people worldwide are chronic carriers of the hepatitis C virus (HCV) and that 3 to 4 million people are newly infected each year. It is expected that 25 to 35% of these chronic patients will develop progressive liver disease including cirrhosis and liver cancer. Hepatitis C is the single leading cause of liver transplantation. The US Centres for Disease Control and Prevention estimate that approximately 4 million people in the United States (almost 2% of the population) have been infected with HCV, of whom, approximately 3 million are chronically ill. Hepatitis C is the cause of an estimated 8,000 to 10,000 deaths annually in the US.

About HCV-related liver transplant prophylaxis
Approximately 5% of chronic HCV patients will develop end-stage liver disease, and ultimately may require liver transplantation. Today, there is a major problem associated with HCV-related liver transplantation. Although the infected liver – the major source of viral replication – has been removed, free-floating virus in the patient's serum re-infects the healthy transplanted liver in a matter of weeks. Disease progression in re-infected patients is several times faster and, in many cases, a re-transplant becomes necessary. At present, there is no available solution to this problem.

About the treatment of chronic hepatitis C
The existing first-line chronic HCV therapy is often associated with a 50-60% success rate but it is limited by severe side effects, including anaemia, fatigue, hair loss and depression. Due to the relatively limited efficacy and toxicity of this treatment, chronic HCV is still considered to be an unmet medical need, with estimated worldwide annual sales for all products treating chronic hepatitis C reaching US$4 billion in 2004.

XTLbio
Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd Reports Progress in HepeX-C Program

Rehovot, Israel, 18 November 2004: XTL Biopharmaceuticals Ltd. (LSE: XTL) ("XTLbio" or the "Company") reports progress in developing HepeX-C as a combination of two human monoclonal antibodies (MAb's) for prevention of re-infection with HCV following liver transplantation (LT):

- **FDA formally releases clinical hold on Phase 2a trial with single MAb ($Ab^{XTL}68$) product;**
- **Following analysis of results available from the above trial, XTLbio can now estimate target dosing regimen range required to achieve a therapeutic effect in LT patients without the need to continue this trial; and**
- **Following a positive Pre-IND meeting with FDA, XTLbio to file an IND for HepeX-C as a dual MAb product in the first half of 2005.**

The Company has received notification from the FDA that the phase 2a trial with $Ab^{XTL}68$ is formally off clinical hold. XTLbio has now completed analysis of the first 5 cohorts of this trial. This analysis has enabled XTLbio to estimate the target dosing regimen required for a therapeutic effect in liver transplant patients and therefore no further patient recruitment is necessary. This information has already been incorporated in the design of upcoming studies with HepeX-C.

The first part of HepeX-C's development strategy was evaluation of a single antibody ($Ab^{XTL}68$) in patients with chronic HCV and in liver transplant patients. These 2 trials have evaluated safety, antiviral and pharmacokinetic properties of $Ab^{XTL}68$ and have allowed the Company to estimate the target dose / frequency range required for a therapeutic effect in liver transplant patients. This information is critical for the design of the second part of HepeX-C's development strategy – evaluation of the dual-MAb product in clinical trials.

Based on this the Company had a pre-IND meeting with the FDA at which XTLbio presented data on $Ab^{XTL}68$ and $Ab^{XTL}65$ which has just successfully completed pre-clinical development. XTLbio also presented the rationale for developing HepeX-C as a combination product containing $Ab^{XTL}68$ and $Ab^{XTL}65$ (targeting different viral sites). Similar drug combination approaches are currently employed in treatment of other viral diseases. XTLbio's HepeX-B, currently in Phase 2b for preventing re-infection with HBV in liver transplant patients, is also a dual-MAb product.

The clinical trial design discussed with FDA includes a dose escalating study with HepeX-C in patients with chronic HCV to evaluate safety and biological activity of the drug. This study will be followed by a trial in liver transplant patients. XTLbio is now preparing an IND for the dual-MAb product for submission to the FDA in the first half of 2005.

"*The studies we have conducted to date with $Ab^{XTL}68$ as a single agent provided us with preliminary indication of safety and antiviral activity of $Ab^{XTL}68$, and enabled us to estimate the target therapeutic dose / frequency range in liver transplant patients. We are now applying the information gathered in these trials to the development of HepeX-C as a dual-antibody product. We are excited to move forward rapidly with the development of HepeX-C*" said Dr. Neil Graham, XTLbio's Chief Medical Officer.

XTL Biopharmaceuticals Ltd. Kiryat Weizmann Science Pk, Bldg 3, POB 370, Rehovot 76100, Israel Tel: +972-8-930-4444 Fax: +972-8-930-4445

Contacts:

Dr. Neil Graham, Chief Medical Officer Tel: +1 919 806 4623

About XTLbio

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

About hepatitis C

Hepatitis C is a major public health concern. The World Health Organization estimates that 170 million people worldwide are chronic carriers of the hepatitis C virus (HCV) and that 3 to 4 million people are newly infected each year. It is expected that 25 to 35% of these chronic patients will develop progressive liver disease including cirrhosis and liver cancer. Hepatitis C is the single leading cause of liver transplantation. The US Centres for Disease Control and Prevention estimate that approximately 4 million people in the United States (almost 2% of the population) have been infected with HCV, of whom, approximately 3 million are chronically ill. Hepatitis C is the cause of an estimated 8,000 to 10,000 deaths annually in the US.

About HCV-related liver transplant prophylaxis

Approximately 5% of chronic HCV patients will develop end-stage liver disease, and ultimately may require liver transplantation. Today, there is a major problem associated with HCV-related liver transplantation. Although the infected liver – the major source of viral replication – has been removed, free-floating virus in the patient's serum re-infects the healthy transplanted liver in a matter of weeks. Disease progression in re-infected patients is several times faster and, in many cases, a re-transplant becomes necessary. At present, there is no available solution to this problem.

XTLbio
Conquering hepatitis C in our time

Chief Executive Officer to step down effective from 1 January 2005

Search currently underway for successor

Rehovot, Israel, 18 November 2004: XTL Biopharmaceuticals Ltd. (LSE: XTL) ("XTLbio" or the "Company") announced today that its Chief Executive Officer and President, Martin Becker, Ph.D., informed the Board of Directors that he intends to step down from leadership of the Company on 1 January 2005. The process of seeking a successor to Dr. Becker has commenced and the Board expects to conclude the appointment of a successor early in 2005, until which time Elkan Gamzu, Ph.D., currently a Non-Executive Director, will act as interim CEO, if necessary.

Martin Becker said, "It has been a privilege to work with such dedicated and talented people over the last ten years and very exciting and rewarding to see the Company develop from its early stages through its IPO, clinical trials, commercial licensing deals and recent fundraisings. I think the time is now right for a change of leadership to transition the Company from a development organization to a commercial enterprise."

Geoffrey Vernon, Ph.D., Chairman of XTLbio, said, "I would like to thank Marty for the many years of service and for leading the business through recent years of significant progress including the Company's public listing in London, the commercial out-licensing of one of our lead products and a recent fundraising this summer which sets us up well for 2005 and beyond. We all wish Marty every success in his future endeavors."

Commenting on Dr. Gamzu's appointment as interim CEO, the Chairman added, " Dr. Gamzu has been on the board since 1998 and brings an extensive knowledge of the Company's operations and over 30 years' experience in the pharmaceutical industry, which includes working in drug discovery and drug development at major multinational companies as well as leading, as CEO, a NASDAQ listed company. I am confident that he will serve the business well until a permanent successor is found."

Contacts:

XTLbio
UK
Dr. Geoffrey Vernon, Chairman — Tel: +44 7971 475 050
Israel
Ronen Kantor — Tel: +972 3 613 3371
Financial Dynamics
Julia Phillips — Tel: +44 (0) 20 7831 3113

About XTLbio

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

XTLbio
Conquering hepatitis C in our time

Cubist Pharmaceuticals and XTL Biopharmaceuticals Announce Completion of Independent Data and Safety Monitoring Board (DSMB) Review of Phase 2 Data for HepeX-B

DSMB Recommends Continuation of Trial

Rehovot, Israel, 23 November 2004: Cubist Pharmaceuticals, Inc. (Nasdaq: CBST) and XTL Biopharmaceuticals Ltd. (LSE:XTL) today announced the completion of the first scheduled review by an independent data and safety monitoring board (DSMB) of the first group of 15 patients enrolled in the ongoing Phase 2 clinical trial. The trial is the second of two planned Phase 2 trials. This study is examining the safety and efficacy of HepeX-B™ (libivirumab and exbivirumab for injection) for prevention of hepatitis B reinfection in patients who have received liver transplantation for end-stage hepatitis B infection, and who have been maintained on hepatitis B immune globulin (HBIg).

The clinical protocol for an open-label study of HepeX-B™ was designed with input from the U.S. Food & Drug Administration (FDA) and specifies for periodic scheduled open-label reviews of the clinical data by an independent DSMB. Based upon a review of the data provided by XTL, the DSMB, convened by Duke Clinical Research Institute at Duke University, has recommended continuation of the trial. Patients are currently being enrolled in the trial in the U.S. and in Israel. Centres in several Western European countries will be opened shortly.

.

Contacts:

XTLbio

Dr. Martin Becker, President and CEO Tel: +1 617 621 1570

Financial Dynamics

Julia Phillips, James Strong Tel: +44 (0) 20 7831 3113

Notes to Editor

About XTLbio

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

About HBV

Hepatitis B is most commonly caused by the Hepatitis B virus, which, according to Datamonitor, has infected over 2 billion people around the world. Although a vaccine against HBV was introduced in 1982, globally, 350 million people are infected chronically with the disease and approximately 1 million people die each year as a result of complications from HBV infection. Current treatment regimens for chronic HBV often include use of interferon alpha or an antiviral drug. Despite these treatment options, chronic HBV can lead to severe liver damage and patients may require liver transplantation To prevent re-infection of the new liver with HBV, patients are currently treated with hepatitis B immune globulin (HBIg) combined with an antiviral compound, such as lamivudine. The global market for HBIg is estimated to be about $100 million annually.

About HepeX-B

HepeX-B™ is a combination of two fully human monoclonal antibodies, selected using XTLbio's pre-clinical Trimera™ model, that target HBV surface antigens. It is currently in an international Phase 2 study for the prevention of infection by HBV in liver transplant patients who have been maintained on HBIg. In clinical studies, HepeX-B™ maintained serum levels similar to or higher than the current first-line treatment, HBIg, using 1,000 times less drug. HepeX-B™ has already been granted Orphan Drug Status in both the U.S. and the European Union.

Conquering hepatitis C in our time

XTLbio announces appointment of Michael S. Weiss, as a non-Executive director

Rehovot, 30 November 2004 - XTL Biopharmaceuticals Ltd. ("XTLbio") (LSE:XTL) is pleased to announce the appointment of Michael Weiss, as a non-Executive director with immediate effect.

Michael S. Weiss is currently the Chairman and CEO of Keryx Biopharmaceuticals, Inc. ("Keryx"). (Nasdaq: KERX). Since joining Keryx in December of 2002, Mr. Weiss successfully completed the restructuring of the company, an acquisition of a private cancer company, the initiation of a phase II/III clinical program for a lead drug candidate and two equity capital raising transactions of approximately $47 million from leading US-based biotechnology funds. Mr. Weiss was formerly founder, chairman and CEO of ACCESS Oncology, Inc., a private company focused on in-licensing clinical stage compounds in the oncology area. Prior to that, Mr. Weiss was Senior Managing Director at Paramount Capital, Inc., an investment banking firm focused on the biotechnology sector located in New York, USA. During his tenure from 1993 to 1999, he was responsible for negotiating and executing private and public investments in biotechnology companies, including Genta, Inc., a publicly-traded biotechnology company, for which he managed the turn around in 1997-1999. Mr. Weiss continues to serve on the Board of Directors of Genta.

Mr. Weiss graduated *magna cum laude* from State University of New York in 1984 and was awarded a *Juris Doctorate* degree from Columbia University Law School in 1991.

Commenting on the appointment, Dr Geoffrey Vernon, Chairman of XTLbio, said:
"We are pleased to welcome Michael as a non-Executive Director of XTLbio. We are confident that his experience will further our strategy in the US marketplace."

Michael Weiss added "*I am very pleased to join XTLbio's board of directors. XTLbio has interesting products and technologies in an extremely important area of medical need – the treatment of hepatitis B and hepatitis C*"

There are no disclosures required under paragraph 6.F.2. (b)-(g).

XTLbio CONTACTS
Dr. Geoffrey Vernon
Chairman of the Board
+44 7971 475 050

Financial Dynamics
Julia Phillips+44 (0) 20 7831 3113

Notes to Editors
XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 with shares traded on the London Stock Exchange's market for listed securities under the symbol XTL.

Conquering hepatitis C in our time

XTLbio announces Board changes

Rehovot, 5 January 2005 - XTL Biopharmaceuticals Ltd. (LSE: XTL) ("XTLbio" or the "Company") announced today that Dr Geoffrey Vernon has informed the Board of Directors (the "Board") that due to family health reasons he is stepping down as Non Executive Chairman with immediate effect. Dr Vernon will continue in his role as a non Executive Director. Elkan Gamzu PhD replaces Dr Vernon as interim Chairman of the Board. Dr Gamzu also continues in his role as interim Chief Executive Officer until the appointment of a permanent Chief Executive Officer. The Company is continuing its search process for the recruitment of a permanent Chief Executive Officer.

Elkan Gamzu PhD, Chairman, commenting on Dr Vernon said "Geoffrey has played an important role in the advancement of XTLbio from a small research-based company to its current status of a multinational biotech company with two potential products in the clinic. Originally, he represented one of the early UK Venture Capital investments in XTLbio, and later became Chairman of the Board as an independent Director. Geoffrey played a major role in the flotation of XTLbio on the London Stock Exchange and we are grateful for all his contributions to date and look forward to his continued participation at the Board level."

Geoffrey Vernon said, "XTL is currently undergoing a process of change with the resignation of its CEO, the search for a new CEO and its move towards a listing on Nasdaq. Unfortunately, due to family health issues, I am unable to make available the substantially increased time commitments that are now necessary to fulfil the role of Chairman during this transition period. I shall continue to provide my support to the Company and the Board in my role as Non-Executive Director".

In addition, Dr. Martin Becker, informed the Company that he is resigning from his position as a Director of the Board, with immediate effect. This follows an announcement by the Company on 18 November 2004 that Dr. Becker was stepping down from his role of Chief Executive Officer and President with effect from 1 January 2005.

XTLbio
Dr. Elkan Gamzu
Interim CEO
Tel: +1 617 621 1570

Financial Dynamics
David Yates / Julia Phillips
Tel: +44 (0) 20 7831 3113

Notes to Editors

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

Conquering hepatitis C in our time

XTLbio Receives Request to Convene an Extra-ordinary Meeting

Rehovot, 6 January 2005 - XTL Biopharmaceuticals Ltd. (LSE: XTL) ("XTLbio" or the "Company") announced today that on 5 January 2005 it received a request to convene an Extra-ordinary Meeting of Shareholders from a shareholder holding approximately 10.11% of the current issued share capital of the Company (the "Requestor").

The request requires the Board of XTLbio to convene an Extra-ordinary Meeting for the purpose of considering and, if thought fit, passing the following resolutions:

- that Ben Zion Weiner, Ph.D. be appointed as a Director of the Company;
- that William J. Kennedy, Ph.D. be appointed as a Director of the Company;
- that Jonathan R. Spicehandler, M.D. be appointed as a Director of the Company;
- that Michael Weiss be granted options to purchase 9,250,000 ordinary shares of the Company at an exercise price of GBP 0.20 per share and subject to certain vesting criteria which is linked to the valuation of the Company on the market;
- that Ben Zion Weiner be granted options to purchase 2,000,000 ordinary shares of the Company at an exercise price of GBP 0.20 per share and subject to certain vesting criteria which is linked to the valuation of the Company on the market; and
- that the Articles of Association be amended to enable the issuance of shares without the current pre-emptive requirement.

Brief information in relation to Messrs. Weiner, Kennedy and Spicehandler has been supplied to the Company.

The Board of XTLbio is examining the details of this request and will provide further information in due course.

The Board understands that, based on documents presented by the Requestor, that the request has been made by Roy Nominees Limited which has stated that it holds 17,000,000 ordinary shares in XTLbio (representing approximately 10.11% of the existing issued share capital of the Company), as registered owner.

XTLbio
Dr. Elkan Gamzu
Interim CEO
Tel: +1 617 621 1570
Financial Dynamics
David Yates / Julia Phillips
Tel: +44 (0) 20 7831 3113

Notes to Editors

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 with shares traded on the London Stock Exchange's market for listed securities under the symbol XTL.

Conquering hepatitis C in our time

XTLbio Receives Further Resolution Request

Rehovot, 13 January 2005 – On 6 January 2005, XTL Biopharmaceuticals Ltd. (LSE: XTL) ("XTLbio" or the "Company") announced that it had received a request to convene an Extraordinary General Meeting of shareholders from a shareholder holding approximately 10.11% of the current issued share capital of the Company (the "Requestor").

The Board of XTLbio has reviewed the resolutions proposed by the Requestor and considers the resolutions to be inappropriate and not in the best interests of shareholders, with the exception of the proposal relating to the amendment of the Articles of Association regarding pre-emption which is supported by the Board. Furthermore, the Board of XTLbio has informed the Requestor that it has not approved the resolutions relating to the grant of options to Michael Weiss and Ben Zion Weiner.

On 11 January 2005, the Board received a further letter from the Requestor proposing that the following resolution be added to the resolutions already submitted for consideration by shareholders:

> "That Elkan Gamzu, Geoffrey Vernon, and Peter Stalker be and they are hereby removed from their position as Directors of the Company with immediate effect."

The Board will be distributing a circular to shareholders during the course of next week to convene the Extraordinary General Meeting of shareholders and in such circular shall be setting out its views with regard to the requisition as a whole.

The Board understands that, based on documents presented by the Requestor, that the request has been made by Roy Nominees Limited which has stated that it holds 17,000,000 ordinary shares in XTLbio (representing approximately 10.11% of the existing issued share capital of the Company), as registered owner.

XTLbio
Dr. Elkan Gamzu
Interim CEO
Tel: +1 617 621 1570

Financial Dynamics
David Yates / Julia Phillips
Tel: +44 (0) 20 7831 3113

Notes to Editors

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. XTLbio believes its primary competitive advantage lies in its patented Trimera™ technology, which enables the development of fully human monoclonal antibodies and models of human disease for pre-clinical drug validation. Established in 1993, XTLbio became a public company in 2000 with shares traded on the London Stock Exchange's market for listed securities under the symbol XTL.

Conquering hepatitis C in our time

XTLBIO SCHEDULES EXTRAORDINARY GENERAL MEETING

FOR 24 FEBRUARY 2005

Rehovot, 26 January 2005 – XTL Biopharmaceuticals Ltd. (XTLbio) announced today the convening of an Extraordinary General Meeting (EGM) at 12:00 pm (Israel time) on 24 February 2005 in response to a requisition from a shareholder (the "Requisitioner"). A circular concerning the upcoming EGM is being posted to shareholders today and will be made available on the Company's website at www.xtlbio.com.

The Requisitioner's resolutions propose that three (3) new individuals should be appointed as Non-executive Directors of the Company, that three (3) current Non-executive Directors should be removed from their office as Directors of the Company, that two (2) Non-executive Directors should be granted options and that the Articles of Association of the Company should be amended to enable new shares to be issued without the current pre-emptive requirement. In addition, the Board proposes two (2) further resolutions: that the Articles of Association of the Company should be amended as to reduce the minimum number of directors on the Board from seven (7) to five (5) and that the remuneration of Elkan Gamzu in his capacity as the Interim Chief Executive Officer be approved.

The circular to shareholders includes the following letter from the external directors of XTLbio:

LETTER FROM THE EXTERNAL DIRECTORS OF XTL BIOPHARMACEUTICALS LTD

To holders of ordinary shares in XTL Biopharmaceuticals Ltd ("XTLbio" or the "Company") and, for information only, to participants in the Company's share option schemes

Dear Shareholder,

CONVENING OF AN EXTRAORDINARY GENERAL MEETING:
REQUISITION TO APPOINT THREE NEW MEMBERS TO THE BOARD;
REMOVAL OF THREE CURRENT DIRECTORS;
GRANT OF SHARE OPTIONS TO TWO NON EXECUTIVE DIRECTORS AND AMENDMENT OF THE ARTICLES

On 5 January 2005, Alex Rabinovitch (the "Requisitioner"), under authority from Roy Nominees Limited, a holder of 10.11% of the Company's issued share capital, wrote to the Board requiring the Company to convene an Extraordinary General Meeting ("EGM") at which certain resolutions be proposed to shareholders. On 11 January 2005 the Requisitioner wrote to the Board requesting one (1) additional resolution be proposed at the EGM.

The Requisitioner's resolutions state that three (3) new individuals should be appointed as Non-executive Directors of the Company, that three (3) current Non-executive Directors should be removed from their office as Directors of the Company, that two (2) Non-executive Directors should be granted options and that the Articles of Association of the Company ("the Articles") should be amended to enable new shares to be issued without the current pre-emptive requirement.

On the basis of various recent interviews given by the Requisitioner and reported in the press, the Requisitioner has indicated that the passing of his proposed resolutions, among other things, will facilitate the Company's listing on NASDAQ.

In keeping with its obligations under the UK Listing Rules (which would equally apply if the Company was listed on NASDAQ) this letter addresses the Requisitioner's proposals. Under the Israeli Company Law, the Company must appoint two External Directors. Their role is to ensure good corporate governance of the Company. External Directors have no pre-existing relationship with the Company prior to their appointment and have a particular responsibility to fully represent the best interests of all shareholders with no conflicts of interest. Accordingly, as all other directors of the Board have a personal interest in one or more resolutions proposed; this letter has been issued by the External Directors.

The External Directors believe that the Requisitioner's proposals go beyond the simple matter of appointment, removal and remuneration of Directors and raise significant concerns about corporate governance of the Company. The External Directors are also aware that a significant number of the Company's shareholders are resident in Israel and may not have heard the Board's views on these proposals although several interviews with the Requisitioner have been published in the local press. The External Directors therefore urge shareholders to attend the EGM in person to hear the Requisitioner's proposals and to provide the Board with an opportunity to respond directly to shareholders on these proposals before shareholders cast their votes in respect of each of the proposed resolutions.

Summary of the External Directors' views

The External Directors oppose the Requisitioner's proposals for the following reasons:

- their general concerns regarding corporate governance for a publicly quoted company and the potential issues for the decision making process of the Board moving forward;
- significant unnecessary dilution of the Company's share capital should the proposal to grant large numbers of options to one (1) existing Non-executive Director and one (1) proposed Non-executive Director be agreed;
- removal of experienced and committed Non-executive Directors without reasonable justification; and
- difficulty in appointing a credible new Chief Executive Officer which the External Directors believe is an essential pre-requisite for a successful NASDAQ listing.

These issues and concerns are discussed in greater detail below.

NASDAQ Listing

On 6 September 2004 the Board announced its intention to pursue a NASDAQ listing of the Company's securities, and has already taken the following steps to effect such a NASDAQ listing:

- appointing Peter Stalker III, former Managing Director of E. M. Warburg Pincus and Co. Inc., New York, as a Non-executive Director in January 2004, with significant US investment banking experience;
- restructuring the Board to a US format, whereby the Directors are largely non-executive and a major part of the Board is comprised of US based directors with US public company experience;
- reducing the total number of Directors on the Board;

- progressing a recruitment process for a US based Chief Executive Officer with a proven track record; and

- pro-actively raising awareness amongst US investors of the Company's profile and impending listing.

Companies do not automatically qualify for a NASDAQ listing. Prior to any listing a company must satisfy a number of requirements. Some of these relate to the value of securities to be listed, others relate to the regulatory processes to be followed. Both of these cannot be completed in a short space of time. The External Directors believe that the Board is already progressing matters to obtain such a listing in the shortest reasonable timeframe and the Requisitioner's proposals will not add anything to facilitate, accelerate or improve the processes already underway.

Grant of Options to Directors

The Requisitioner has proposed that Michael Weiss, a Non-executive Director of the Company, and Ben Zion Weiner, one of the individuals proposed by the Requisitioner, to be appointed as a new Non-executive Director, be granted options to purchase 9,250,000 Ordinary Shares and 2,000,000 Ordinary Shares, respectively, at an exercise price of £0.20 per share. Details of such proposed grant and their terms are set out below.

The current remuneration of Non-executive Directors of the Company, which has been approved by shareholders since the listing of the Company's shares, falls into one of the following categories:

1. Cash-based Remuneration Package
   (a) An annual payment of £10,000 together with a payment of £1,000 for attendance at each board meeting and £500 for attendance at each committee meeting.
   (b) Reimbursement for any reasonable and out-of-pocket expenses.

2. Cash and Option-based Remuneration Package
   (a) An annual payment of US$15,000, payable in four (4) equal quarterly instalments, for the duration serving as a director.
   (b) One time grant of 60,000 options to purchase 60,000 ordinary shares, nominal value NIS 0.02 of the Company, at an exercise price equal to the average price per share quoted on the London Stock Exchange, in the three (3) days preceding such date of issuance, such options to vest over three (3) years, so that 1/3 of such options shall vest on the first, second and third anniversary of the date of issuance, provided that at such time the individual still continues as a director.
   (c) Reimbursement for any reasonable and out-of-pocket expenses.

The Board (excluding Michael Weiss) considers the aforementioned remuneration to Non-executive Directors to be fair and reasonable and within the acceptable corporate governance standards of remuneration of Non-executive Directors, especially given the relatively small size of the Company. A summary of the Requisitioner's proposal is that the options to be granted to Michael Weiss and Ben Zion Weiner shall be exercisable for a period of five (5) years from the date of issuance at the Extraordinary General Meeting. The options will be granted in accordance with the terms and condition governing the Company's 2001 Stock Option Plan and will be subject to the terms and conditions thereof.

The options granted shall vest as follows: (a) 1/3 of the options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $150 million, as determined utilizing the Market Capitalization Formula (defined below); (b) 1/3 of the options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis

of more than $250 million, as determined utilizing the Market Capitalization Formula; and (c) 1/3 of the options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $350 million, as determined utilizing the Market Capitalization Formula, provided that at each such vesting the relevant grantee is still a Director of the Company.

The "**Market Capitalization Formula**" shall be calculated as follows: the fully diluted shares (including shares attributable to all options, warrants, other purchase rights and convertible securities, which are in the money and including shares held by affiliates (collectively "**market capitalization shares**")) multiplied by the three (3) consecutive trading day average of the closing price of the Ordinary Shares as reported by NASDAQ (or such other exchange as such shares are then listed or in the good-faith determination of the board, if not then listed or quoted) plus long-term debt (as of any date) minus Working Capital (as defined below) and minus the aggregate exercise price of all options and warrants included in the market capitalization shares. The term "**Working Capital**" shall mean as of any date, (1) the current assets plus investment securities or cash equivalents thereof or similar assets that have maturities in excess of 12 months, minus (2) current liabilities.

The full terms of such options as proposed by the Requisitioner are:

*"The Company will grant the Directors (each a "**Grantee**") the Options to purchase Ordinary Shares, of nominal value NIS 0.02 each of the Company (the "**Shares**"), which options shall be exercisable for a period of five (5) years from the date of issuance at the Extraordinary Shareholders meeting. The Options will be granted in accordance with the terms and condition governing the Company's 2001 Stock Option Plan (the "**Plan**") and will be subject to the terms and conditions thereof; provided, however, that if any provisions hereunder are inconsistent with the terms and conditions of the Plan, the terms hereunder shall control. In accordance with the Plan, should any change be made to the Ordinary Shares by reason of any stock split, stock dividend, extraordinary cash dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Ordinary Shares as a class without the Company's receipt of consideration, appropriate adjustments shall be made to (A) the total number and/or class of securities subject to such options and (B) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement under such options.*

The Options granted to the Grantees shall vest as follows: (a) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $150 million, as determined utilizing the Market Capitalization Formula (defined below); (b) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $250 million, as determined utilizing the Market Capitalization Formula; and (c) 1/3 of the Options shall vest and be exercisable upon the Company achieving a total market capitalization on a fully diluted basis of more than $350 million, as determined utilizing the Market Capitalization Formula, provided that at each such vesting the Grantees is still a Director of the Company.

With regard to any Grantee who is a resident of the US for tax purposes, these Options are intended to qualify as "incentive stock options" under section 422 of the Internal Revenue Code of 1986, as amended, to the extent allowable. The Grantee's shall be entitled to pay the exercise price of any or all of the Options described by any method set forth in the Plan and shall be allowed to satisfy any withholding obligations incurred on the exercise of such Options by electing to have option shares withheld upon such exercise. The Company shall use best efforts to cause all of the shares underlying such Options to be fully registered and freely tradable, including for resale without any limitations or restrictions, provided, however, that while the Grantees are Director's of the Company, each Grantee shall agree to abide by the trading restrictions that may be imposed upon such Grantee from time to time pursuant to any laws, statutes, rules or regulations to which the shares underlying the Options may be subject from time to time.

*The "**Market Capitalization Formula**" shall be calculated as follows: the fully diluted shares (including shares attributable to all options, warrants, other purchase rights and convertible securities, which are in the money*

*and including shares held by affiliates (collectively "**market capitalization shares**")) multiplied by the three (3) consecutive trading day average of the closing price of the Ordinary Shares as reported by Nasdaq (or such other exchange as such shares are then listed or in the good-faith determination of the board, if not then listed or quoted) plus long-term debt (as of any date) minus Working Capital (as defined below) and minus the aggregate exercise price of all options and warrants included in the market capitalization shares. The term "**Working Capital**" shall mean as of any date, (1) the current assets plus investment securities or cash equivalents thereof or similar assets that have maturities in excess of 12 months, minus (2) current liabilities."*

Michael Weiss, who has an interest in one of the two resolutions proposed by the Requisitioner, has not participated in discussions concerning his own remuneration. He has however indicated his support for the proposed resolution 6 to grant options to Ben Zion Weiner. The Board, excluding Michael Weiss, have the following views on proposed resolutions 5 and 6:

- The proposal to grant two (2) Directors significant numbers of options on the terms proposed by the Requisitioner detracts from the Company's current standards of remuneration for Non-executive Directors. These are highly unusual remuneration packages for Non-executive Directors, amounting to 6.7% of the issued and outstanding share capital of the Company.

- Directors in receipt of such remuneration may be categorised as "non-independent" for the purpose of corporate governance codes of practice in the UK and the US. The combined code for corporate governance in the UK states that a board should include a balance of executive and Non-executive Directors and in particular "independent" Non-executive Directors such that no individual or small group of individuals can dominate. Under NASDAQ rules, a majority of the directors on a NASDAQ listed company are required to be "independent" meaning that such directors must not have a substantial financial interest in the company. If all of the Requisitioner's resolutions were approved at the EGM, two (2) out of the six (6) remaining Directors may not be considered independent. This may have implications for the Company's proposed NASDAQ listing and also for the ability of those Directors to participate in certain Board Committees, which are critical to the efficient functioning of any Board.

- Although Non-executive Directors have a valuable contribution to make, company performance and results are largely delivered by executive management. The granting of such a large number of options to Non-executive Directors may also act as a disincentive to recruiting a new Chief Executive Officer to the Company. In particular, the External Directors believe that the grant of 9,250,000 options to a single Non-executive Director would be considered to be more in keeping with the level of options for a chief executive officer than for an individual with a non-executive role on the Board. In the view of the External Directors such a grant could make it extremely difficult to hire a qualified US-based Chief Executive Officer. In addition, the magnitude and the pricing of the proposed option packages might also be considered unfair to existing senior management executives and hinder the recruitment of new senior executives.

- The proposed discounting of the exercise price is inconsistent with the Company's policy on granting of options to employees and also to Non-executive Directors. The current Company policy as to the exercise price is the average price per share in the three (3) days preceding the date of issuance, as set out in the Company's employee stock option plan and as is consistent with UK best practices and substantially similar to US best practices. The External Directors consider this to be reasonable and appropriate. The Requisitioner's proposed exercise price was at a discount of 24 per cent to the share price of the Company at the date of the requisition, a level of discount which the External Directors view as highly favourable to the grantees of the options and highly dilutive to existing shareholders.

Under the UK Listing Rules the proposals set out in Resolution 5 and, subject to Resolution 1 being passed, Resolution 6 amount to "related party" transactions. Accordingly, under the Listing Rules the terms of the proposals require that prior to the grant of the options the board of the Company provide the UKLA with written confirmation from an independent adviser acceptable to the UKLA that the terms of the proposed transactions with the related parties are fair and reasonable so far as the shareholders of the Company are concerned (the "Related Party Confirmation"). **The UKLA has not been provided with such a Related Party Confirmation and in the absence of it the grant of the options would be prohibited under the UK Listing Rules.**

Appointment of New Directors and Removal of Current Directors

The Requisitioner has proposed the removal of Elkan Gamzu, Geoffrey Vernon and Peter Stalker III from the Board, effective as of the date of the EGM. Further the Requisitioner is requesting that Ben Zion Weiner, William James Kennedy and Jonathan Spicehandler be appointed as directors of the Company. Copies of the curriculum vitae of the proposed directors can be found in Part 2 of this document.

The External Directors believe that the existing board of XTLbio has a broad combination of skills, including a wealth of pharmaceutical and biotechnology industry experience, financial and management expertise and knowledge of the Company's operations which positions it very well to build on past successes and, crucially, to deliver real value from the Company's unique assets to its shareholders. Significant progress has been made in both the clinic and from a partnering perspective.

The Board welcomes nominations from shareholders with regard to individuals whose skills they believe would add value to the Company. However, in coming to a decision the Board is required to follow a proper selection process. In seeking to adhere to codes of conduct in the UK and the US, new candidates to be appointed meet with the Nominations Committee in order to ascertain their suitability, their potential contribution to the Board and the Company and to ensure that they have no conflicting interests. The selected candidates then meet with the remaining members of the Board and are then confirmed. In this particular instance, the Board first heard of the proposed appointments when the Requisitioner tabled their appointment as one of the resolutions for this EGM. Therefore the Board's knowledge of these individuals extends only to the information contained within their curriculum vitae, which are attached in the "Additional Information" section of this document.

The External Directors are very concerned by the proposed process of the Requisitioner to appoint three (3) new individuals without any prior reference to the Board or its Nominations Committee. Because Board members carry equal legal responsibilities with other Directors serving together with them on the same Board, Nominations Committees are standard in publicly quoted companies. The Requisitioner has no such responsibilities, nor is accountable to the shareholders for any appointment. Therefore, the calling of an EGM to specifically over-ride a standard corporate governance process affecting the legal responsibilities of the Board is, in the opinion of all members of the Board other than Michael Weiss, highly irregular and raises concerns with the External Directors about the way in which such important decisions could be taken in the future if the Requisitioner's proposals were allowed to proceed unchallenged.

Whilst shareholders are entitled at a shareholder meeting to remove directors from office, the Board has been advised in writing by the Requisitioner that the current proposal to remove Elkan Gamzu, Geoffrey Vernon and Peter Stalker III as Directors stems from the Board and the Remuneration Committee's decision not to recommend the Requisitioner's request to the grant of options described above with the effect that, **despite any shareholder vote on this issue, the option grant would not be valid**. Directors' fiduciary duties are to act independently in the best interests of the Company and all of its shareholders, according to their own conscience and, based on their own belief, experience

and specific knowledge of the Company. For the reasons stated above, the External Directors believe that the Board has acted in the best interests of the Company.

Geoffrey Vernon has notified the Company of his intention to resign from the Board immediately upon the completion of the Extraordinary General Meeting regardless of the outcome. Elkan Gamzu has a wealth of research and development experience in both the pharmaceutical and biotechnology industries, is US based, has served on other publicly quoted US Boards and has an in-depth understanding of the research and development programmes of XTLbio. Peter Stalker III has extensive US banking experience. We do not believe that removing these two (2) Directors from the Board is in the best interests of the Company and its shareholders.

Requisitioner's communication with the External Directors

As External Directors of the Company, we have also received a separate letter from the Requisitioner demanding that we disclose our position regarding the appointment of the three (3) new Directors and the granting of the proposed option packages to two (2) Directors. In the same letter he urges us to consider resignation from the Board prior to the upcoming EGM if we are not in agreement with his proposals, which he claims are supported by a majority of shareholders. It is stated that this would enable the proposal and appointment of two (2) new External Directors at the upcoming EGM and would negate the requirement for a further EGM to do the same.

In keeping with our fiduciary responsibilities and having special regard for our duties as External Directors, we do not believe that the appointment of an entirely new Board of Directors is in the best interests of the Company and its shareholders at this time. However, the Requisitioner has indicated in a letter to the current members of the Board that he and other shareholders "shall deem each and every member of the Board who voted against the grant of options personally liable for any such additional expenditure and damage to the Company and, may in the future, request the Company to recover any such damages that will be incurred from the Board". Furthermore, in his letter to the External Directors the Requisitioner says, "…you should consider the ramifications of any decrease in the share price on the market that may result from your actions or inactions" in relation to our decision or otherwise to resign at or after the EGM. In our opinion, this threat of personal litigation is an unnecessary act of aggression and might be deemed as undue interference with our statutory responsibilities as Directors. The External Directors also believe that this approach raises significant issues about the direction of a public company if a shareholder, who has not otherwise obtained approval of the shareholder body as a whole, pressurises External Directors into resignation because they do not agree with him. We also believe that it also does not augur well for the independent role of Directors in decision-making processes within the Company if a dissatisfied shareholder seeks to replace an entire Board in this way.

Amendment of the Articles

The Board supports the proposed amendment of the Articles of Association to enable the issuance of shares without the current pre-emptive requirement so as to help facilitate a listing on NASDAQ. The effect of such amendment to the Articles is that the Board will be entitled to issue securities of the Company without first offering such securities to the shareholders of the Company. Notwithstanding such amendment to the Articles, the Company shall continue to be obligated to comply with the UK Listing Rules regarding the issuance of share capital, while the Company remains listed in the UK, regardless of amendments made to the Company's articles.

It is proposed that the following amendments be made to the Company's Articles of Association:

> That the existing Articles of Association of the Company be amended by the deletion of the existing Articles 6.1, 6.3 and 6.4 and the replacement therefore with the following:

"6.1 The shares of the Company shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions, and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit."

"6.3 Reserved."

"6.4 Reserved.

Additional Resolutions proposed by the Board of Directors

In the light of the convening of the EGM and the resolutions proposed by the Requisitioner, the Board proposes two (2) further resolutions for consideration by shareholders at the EGM.

1. A further amendment of the Articles of Association so as to reduce the minimum number of directors on the Board from seven (7) to five (5) following the Board's decision that executive directors, excluding the Chief Executive Officer, should not serve on the Board of Directors. The reduction of the number of directors on the Board, by way of executive directors not serving on the Board, brings the Company more in line with a US style board consistency. The full text of the proposed amendment is as follows:
"THAT the existing Articles of Association of the Company be amended by the amendment of Articles 26.1 and the replacement of the word "seven (7)" with the word "five (5)" so that following such amendment, Article 26.1 shall state the following:

"26.1 Until such time as the General Meeting decides otherwise, the number of members of the Board of Directors shall be not less than five (5) and not more than twelve (12)."

2. To approve the remuneration of Elkan Gamzu, who volunteered to serve as the interim Chief Executive Officer and Chairman of the Board until such time as permanent successors are appointed. At present Dr. Gamzu, who is normally based in the US, is prevented from carrying out his regular full time consulting role with other companies there and therefore forfeits his normal income from such consulting activities to address XTLbio's business needs, which include frequent travel to Israel. Accordingly, the Board proposes that Elkan Gamzu should receive a monthly remuneration of US$25,000 for each month he serves as interim Chief Executive Officer (such amount to be pro rated for any parts of a month), effective as of 1 December 2004. This is the same as the cash remuneration paid to the former Chief Executive Officer. Elkan Gamzu will receive no benefits commensurate with the office and it is not proposed to pay him additional remuneration for his role as Interim Chairman.

Extraordinary General Meeting / Action to be taken

A notice convening the Extraordinary General Meeting of the Company to be held at 12.00 p.m. (Israel Time) on 24 February 2005 at The Dan Tel Aviv Hotel, 99 Hayarkon St., Tel Aviv 63432, Israel is set out at the end of this document.

RESOLUTIONS 1 TO 6 ARE OPPOSED BY THE EXTERNAL DIRECTORS

- Resolutions 1 to 3 seek to approve the appointment of Ben Zion Weiner, William Kennedy, and Jonathan Spicehandler, as Directors to the Board;

- Resolution 4 seeks to approve the removal of Elkan Gamzu, Geoffrey Vernon, and Peter Stalker III from their office as Directors of the Company;

- Resolution 5 seeks to approve the grant of certain share options to Michael Weiss, a Director of the Company; and

- Resolution 6 seeks to approve the grant of certain share options to Ben Zion Weiner, a proposed candidate to be appointed as a Director of the Company.

RESOLUTIONS 7 TO 9 ARE SUPPORTED BY THE EXTERNAL DIRECTORS

- Resolution 7 seeks to amend the Articles of Association of the Company to exclude the provisions relating to pre-emption rights and to provide a general authority to the Board to issue shares of the Company so as to provide the Company with greater flexibility to take advantage of fund-raising opportunities should they prove necessary;

- Resolution 8 seeks to amend the Articles of Association of the Company to reduce the minimum number of directors from seven (7) to five (5); and

- Resolution 9 seeks to approve the grant of certain remuneration to Elkan Gamzu, a Director of the Company, for the provision of his services as the interim Chief Executive Officer and Chairman.

Shareholders are urged, where possible, to attend and vote at the meeting in person. If this is not possible they may vote by proxy and are advised to take the following course of action to ensure that their views are represented at the meeting.

You will find enclosed a form of proxy (or Form of Instruction in the case of holders of Depository Interests) for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting, please complete and return the form of proxy to Computershare Investor Services (Channel Islands) Limited, PO Box 83, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW, Channel Islands; the form of instruction to Computershare Investor Service PLC, POB 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA, England; (or, by hand only, at Computershare Investor Services PLC, 68 Upper Thames Street, Vintners' Place, London, EC4V 3BJ, England) **as soon as possible** and, in any event, so as to be received with regard to the form of instruction, **no later than 2.00 p.m. (Israel Time) on 21 February 2005** and with regard to the proxy, **no later than 12.00 p.m. (Israel Time) on 22 February 2005. The Board of Directors has fixed 11 February 2005 as the "record date" for determining those shareholders entitled to participate and vote at the Extraordinary General Meeting.** If you need assistance in communicating with your nominee (for nominee banks that are not a direct shareholder) or in filling out the proxy forms, please contact Georgeson Shareholder Communications, Inc., a Computershare plc company, Mr. Stephen Lewis, whose details are provided below.
Phone: +44 (0) 870 703 0307
Fax: +44 (0) 870 703 0158
Email: stephen.lewis@computershare.co.uk.

Completion and return of a form of proxy will not preclude shareholders from attending and voting at the Extraordinary General Meeting, should they so wish.

Recommendations

The Directors (excluding Michael Weiss) do not believe that resolutions 1-4 are in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE AGAINST resolutions 1 to 4**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The Directors (excluding Michael Weiss, who did not participate in the Board decision on this matter) do not believe that resolution 5 is in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE AGAINST resolution 5**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The Directors (excluding Michael Weiss) do not believe that resolution 6 is in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE AGAINST resolution 6**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The Directors do believe that resolutions 7-8 are in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE FOR resolutions 7 and 8**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to five hundred and sixteen thousand seven hundred and seventy-nine shares representing approximately 0.31 per cent of the issued share capital of the Company.

The majority of the Directors (excluding Elkan Gamzu, who did not participate in the Board decision on this matter) do believe that resolution 9 is in the best interests of shareholders as a whole and therefore recommend that shareholders:

- **VOTE FOR resolution 9**

as they intend to do in respect of their own beneficial holdings which amount, in aggregate, to four hundred and seventeen thousand three hundred and twenty seven shares representing approximately 0.25 per cent of the issued share capital of the Company.

Geoffrey Vernon has notified the Company of his intention to resign from the Board immediately upon the completion of the Extraordinary General Meeting irrespective of the outcome of resolution 4.

Michael Weiss has indicated to the Board that he is highly likely to resign from the Board if the Requisitioner's resolutions are not approved.

Elkan Gamzu and Peter Stalker III have indicated to the Board that they shall consider resigning from the Board even if Resolution 4 seeking to remove them from office is not approved but resolutions 1-3 and 5-6 are approved by the shareholders. They feel that these resolutions would undermine the role of the current Board in managing the Company and would have a significant bearing on the way in which Board decisions would be made in the future.

Yours faithfully,
Patricia Smith
Rusi Kathoke

Contacts:

XTLbio
Dr. Elkan Gamzu
Interim CEO and Chairman
Tel: +972 (0) 8 930 4440

Financial Dynamics
David Yates / Julia Phillips
Tel: +44 (0) 20 7831 3113

Notes to Editors

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. Established in 1993, XTLbio became a public company in 2000 with shares traded on the London Stock Exchange's market for listed securities under the symbol XTL.

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd

Preliminary Results for the Year Ended 31 December 2004

Rehovot, Israel, 18 February 2005 - XTL Biopharmaceuticals Ltd (LSE: XTL) today announces its financial results for the year ended 31 December 2004.

Highlights

Hepatitis B:

- Major worldwide licensing agreement signed with Cubist Pharmaceuticals for the development and commercialisation of HepeX-B.
- Independent Data & Safety Monitoring Board (DSMB) recommended continuation of the ongoing Phase 2b trial of Hepex-B and enrolment continues.
- Orphan Drug Designation received from the European Medicines Evaluation Agency (EMEA).
- Fourth patent issued in July 2004.

Hepatitis C:

- Data presented at American Association for the Study of Liver Diseases (AASLD) and the European Association for the Study of Liver Diseases (EASL) showed complementary activity in the dual-antibody approach and subsequent neutralisation of the Hepatitis virus in serum from patients with chronic HCV.
- Pre-IND meeting held with the FDA on the dual-antibody approach. Preparation now underway of an IND for the dual-antibody product to be submitted to the FDA in 2005.
- FDA approval to continue specific dose cohort in Phase II clinical trial, after a dosing arm in the trial had been voluntarily halted due to a patient not surviving a transplant operation.
- Two clinical candidates, both small molecules, identified for the treatment of chronic HCV and preparation of INDs is underway.

Financial:

- $17.8 million raised in an equity offering to investors
- Net loss increased to $16.5 million (2003: $14.3 million)
- Cash, short and long term investments of $23 million (2003: $22.4 million)

Elkan Gamzu, Interim Chief Executive Officer, said:

"We made good progress on a number of fronts in 2004, in particular the signing of our commercial agreement with Cubist Pharmaceuticals Inc for the licensing, development and commercialisation of Hepex-B, our most advanced program for which we are recruiting patients for an ongoing Phase 2b trial.

Alongside the progress made with our development programs, we raised $17.8 million from a number of new international institutional investors and with the support from them and our existing investors, we look forward to furthering our development programs and advancing our plans to seek a listing on

NASDAQ. We believe that a solid presence in the US market will assist us in growing the business going forward."

CONTACTS

XTLbio
Dr. Elkan Gamzu
Interim Chairman and CEO
+972-8-930-4440

Financial Dynamics
Julia Phillips
+44 (0) 20 7831 3113

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd.

Extraordinary General Meeting Statement

Rehovot, Israel, 24 February 2005 – XTL Biopharmaceuticals Ltd. (XTLbio) announced that at its Extraordinary General Meeting (EGM) held today, the following is the outcome.

Resolutions 1, 2 and 3 relating to the appointment of Ben Zion Weiner, William Kennedy and Jonathan Spicehandler as new Directors of the Company were approved.

Resolution 4 relating to the removal from office of Elkan Gamzu, Geoffrey Vernon and Peter Stalker III as directors of the Company was approved.

Resolutions 5 and 6 relating to the approval of the issuance of options to Michael Weiss and Ben Zion Weiner were approved by the shareholders. However, it should be noted, that the Company has received legal advice that the grant of such options is not valid due to the fact that certain approvals were not obtained to satisfy the requirements of the Israeli Companies Act - 1999 and certain additional steps are required in order to satisfy the Listing Rules of the UK Listing Authority, respectively.

Resolutions 7 and 8 relating to the amendment of the articles of association of the Company to enable the Board to issue securities of the Company without first offering such securities to the existing shareholders of the Company and to reduce the minimum number of directors on the Board from 7 to 5 were approved.

Resolution 9 relating to the approval of remuneration for Elkan Gamzu as interim Chief Executive Offer of the Company was not approved.

As a result of Resolution 4, Elkan Gamzu ceases his role as interim chairman. In addition, Dr Gamzu has also resigned from the role of interim Chief Executive Officer with immediate effect.

For further information please contact:

Financial Dynamics
Julia Phillips/Sarah MacLeod Tel: +44 (0) 20 7831 3113

Conquering hepatitis C in our time

XTL Biopharmaceuticals joins FTSE™ techMARK 100 index

Rehovot, Israel, 4 March 2005 – XTL Biopharmaceuticals Ltd. (XTLbio) announced today that, following the FTSE™ techMARK 100's recent quarterly review, the Company's shares are now included in the FTSE™ techMARK 100. The techMARK 100 is a component of the FTSE™ techMARK index of the London Stock Exchange. XTLbio continues to be a constituent member of the FTSE™ techMARK All-Share and the FTSE™ techMARK mediscience™ indices.

For further information please contact:

Financial Dynamics
Julia Phillips/Sarah MacLeod Tel: +44 (0) 20 7831 3113

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd

Board Change

Rehovot, Israel 15 March 2005 - XTL Biopharmaceuticals Ltd ("XTLbio") (LSE: XTL) today announces the appointment of Michael Weiss as Interim Non-Executive Chairman with immediate effect. Mr. Weiss became a Non-Executive Director of XTLbio in November 2004 and is also Chairman and CEO of New York-based Keryx Biopharmaceuticals, Inc.

"With the new board in place following the successful shareholder requisition, I felt it was an appropriate time for me to take a leadership role in XTLbio" stated Mr. Weiss, who continued, "with the new board members we have added substantial expertise in research and development as well as regulatory affairs and with particular expertise in hepatitis C. We look forward to transitioning the Company into a disciplined and focused biotechnology company dedicated to creating shareholder value. Our early efforts will also focus on commencing the Nasdaq listing process and identifying a US-based Chief Executive to lead the Company."

XTLbio
Jonathan Burgin, CFO
Tel: +972 8 930 4440

Financial Dynamics
Julia Phillips / Sarah MacLeod
Tel: +44 (0) 20 7831 3113

Notes to Editors

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX^{TM} product line - now in clinical trials - has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of re-infection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

Conquering hepatitis C in our time

XTL Biopharmaceuticals Ltd
Provides Update on Clinical Programs and Planned Operations

XTLbio to focus efforts on advancing lead programs, HepeX™-C and HCV-SM and supporting HepeX™-B collaboration

Rehovot, Israel, 31 March 2005 - XTL Biopharmaceuticals Ltd ("XTLbio") (LSE: XTL) today announced that the new Board has undertaken a review of the business and agreed on a re-focusing plan designed to enable the Company to realize value from its R&D programs.

Integral to the strategy is the Board's initiative to focus its resources on the development of its lead programs, HepeX-C and HCV-SM, with the goal of moving those programs through to clinical proof-of-principle. The plan provides for cost savings of approximately $6 million over the next two years and will extend the Company's cash resources until the end of 2006 or early into 2007. The key points arising from the review include:

- a reduction in headcount of approximately 20 individuals, primarily in R&D, as the Company's programs advance into the clinical stages of development, and its commercialisation partner for HepeX-B, Cubist Pharmaceuticals, takes over more responsibility for product development;

- streamlining of operations across the business;

- deferring all R&D activity not supporting the lead clinical programs until proof-of-principle has been achieved in at least one of the two lead programs; and

- reduction in cash burn to $0.9M per month from $1.3M

In addition, to diversify the Company's clinical product portfolio and to strengthen its franchise in infectious diseases, XTLbio will seek to in-license or acquire complementary clinical product candidates to broaden its clinical pipeline.

Michael Weiss, Interim Non-Executive Chairman, commented:

"The Board has agreed to a plan to realize value from XTLbio's pipeline in what we believe will be the most efficient, cost effective and timely manner. By streamlining operations and focusing our research efforts, we believe we can reach our clinical timelines to proof-of-principle for each of our major programs more efficiently and, if necessary, do so with our current resources. Our aim is to re-create XTLbio as a goal driven organization that can thrive in the US capital markets following our anticipated listing on the NASDAQ."

Shlomo Dagan, PhD, Chief Scientific Officer, commented:

"While it is always difficult to part with great people, as XTLbio is moving into the next stage of its scientific and clinical development, we need to focus our resources on supporting our lead clinical programs."

Update on Clinical Programs

HepeX-C is being developed to prevent hepatitis C (HCV) re-infection of transplanted livers as well in the treatment of chronic HCV. Having completed a phase 2 clinical trial with one monoclonal antibody (MAb), the program is now at the second stage of the development strategy – evaluation of the dual-MAb product in clinical trials. The Phase Ia/Ib clinical trial with HepeX-C in patients with chronic HCV will evaluate safety and preliminary biological activity of the drug, and is expected to be completed by the end of 2006. XTLbio is now preparing an IND for the dual-MAb product for submission to the FDA in 2005.

The small molecule development program, HCV-SM, is targeted at treating chronic hepatitis C. Following the identification of two lead candidates, the Company plans to select the most promising small molecule in this program to take forward into clinical development, and assuming the lead candidate passes pre-clinical toxicology testing, currently on-going, then the Company expects to make an IND filing to the FDA by the end of 2005. The Company is targeting completion of a Phase Ia/Ib clinical trial in patients with chronic HCV establishing proof-of-principle, by the end of 2006.

HepeX-B is being developed to prevent re-infection with Hepatitis B (HBV) following liver transplantation. HepeX-B is currently in a Phase IIb trial in patients following liver transplantation. We expect to complete recruitment for this trial by mid-2005. Worldwide rights for HepeX-B were licensed to Cubist Pharmaceuticals Inc.

Contacts:

XTLbio
Jonathan Burgin, Chief Financial Officer Tel: +972 8 930 4440

Financial Dynamics
Julia Phillips / Sarah MacLeod Tel: +44 (0) 20 7831 3113

Notes to Editors

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. XTLbio's HepeX™ product line – now in clinical trials – has the potential to introduce revolutionary therapies for viral hepatitis, including prevention of reinfection in transplanted livers, the Company's primary focus, and a longer-term cocktail approach in treating chronic illness. Established in 1993, XTLbio became a public company in 2000 and its shares are listed on the Official List of the UK Listing Authority and are traded on the London stock Exchange under the symbol XTL.

Conquering hepatitis C in our time

XTLbio Files Registration Statement for Level 2 ADR Listing on NASDAQ

Rehovot, Israel, 13 May 2005 - The Board of Directors of XTL Biopharmaceuticals Ltd (the "Company") (LSE: XTL) announces that it has filed a draft registration statement on Form 20-F (the "Draft Registration Statement") with the U.S. Securities Exchange Commission ("SEC") in connection with the Company's proposed Level II listing of American Depository Receipts ("ADRs") representing its ordinary shares on the NASDAQ Stock Market. The Company will provide further details as to the date when trading in the ADRs is expected to commence once such details are known. The Company is not conducting an offering in connection with the listing.

In a Level II ADR listing, the ADR's are listed on a U.S. stock exchange or interdealer quotation system and the company is regarded as a foreign registrant by the SEC. The Company will need to comply with additional disclosure, reporting and accounting requirements and be compliant with U.S. securities law, including certain provisions of the Sarbanes-Oxley Act.

The Draft Registration Statement may be accessed from the SEC's website, located at http://www.sec.gov.

The Company has not received approval from the SEC for the listing of its ADRs on the Nasdaq Stock Market, and can give no assurance that such approval will be granted or if granted, the timing of initial trading in the ADRs. This announcement is neither an offer to sell nor a solicitation of an offer to buy any securities including any ADRs.

Contacts:

XTLbio
Jonathan Burgin, Chief Financial Officer Tel: +972 8 930 4440

Financial Dynamics
Julia Phillips / Sarah MacLeod Tel: +44 (0) 20 7831 3113

Notes to Editors

XTL Biopharmaceuticals Ltd. (XTLbio) is a biopharmaceutical company developing drugs against hepatitis. Established in 1993, XTLbio became a public company in 2000 and its ordinary shares are listed on the Official List of the UK Listing Authority and are traded on the London Stock Exchange under the symbol XTL.

PART VI

The Companies Law 5759-1999

Public Company

ARTICLES OF ASSOCIATION

OF

XTL BIOPHARMACEUTICALS LTD.

XTL BIOPHARMACEUTICALS LTD. – ARTICLES OF ASSOCIATION

C O N T E N T S

XTL BIOPHARMACEUTICALS LTD. – ARTICLES OF ASSOCIATION

PART A: DEFINITIONS AND INTERPRETATION

1. Definitions

In these Articles of Association, the following terms shall have the meaning appearing opposite them, unless another interpretation is expressly stated herein:

"Alternate Director"	As defined in Part E below
"Auditors"	Means the auditors for the time being of the Company or, in the case of joint auditors, anyone of them;
"Board of Directors"	The Board of Directors of the Company elected or properly appointed in accordance with the provisions of these Articles of Association or present or deemed to be present at a duly/convened meeting of Directors at which a quorum is present; any committee of the Board of Directors to the extent that any of the authorities of the Board of Directors are delegated to it; any person authorised by the Board of Directors, to the extent so authorised, for the purposes of any matter or class of matters;
"Business Day"	A day on which customer services are provided by a majority of the commercial banks in Israel and in the United Kingdom;
"CA1985"	Means the Companies Act 1985 and where the context requires, every other statute from time to time in force concerning companies and affecting the Company; (including without limitation, the Regulations)
"Chairman"	Means the Chairman (if any) of the Board or, where the context requires, the Chairman of a general meeting of the company

"Companies Law"	The Companies Law, 5759 – 1999, as the same shall be amended from time to time, or any other law which shall replace that Law, together with any amendments thereto;
"Companies Ordinance"	Those sections of the Companies Ordinance [New Version] 5743 – 1983 that shall remain in force after the date of the coming into force of the Companies Law, as the same shall be amended from time to time thereafter, or any other law which shall replace those sections after the date of entry into force of the Companies Law;
"Company"	XTL Biopharmaceuticals Ltd.
"Corporate Representative"	As defined in Part E below;
"Depository"	Means a custodian or other person (or a nominee for such custodian or other person) appointed under contractual arrangements with the Company or other arrangements approved by the Board of Directors whereby such custodian or other person or nominee holds or is interested in shares of the Company or rights or interests in shares of the Company and issues securities or other documents of title or otherwise evidencing the entitlement of the holder thereof to or to receive such shares, rights or interests, provided and to the extent that such arrangements have been approved by the Board for the purpose of these Articles, and shall include where approved by the Board, the trustees (acting in their capacity as such) of any employees share scheme established by the Company or any other scheme or arrangement principally for the benefit of employees or those in the service of the Company and/or its subsidiaries or their respective businesses and the managers (acting in their capacity as such) of any investment or savings plan, which in each case the Board has approved.

"Director" or "Directors"	A member or members of the Board of Directors who are elected or appointed in accordance with the provisions of these Articles of Association, including an Alternate Director and a Corporate Representative serving in such capacity at the relevant time;
"Document"	Including a printed article, photocopy, telegram, facsimile, electronic mail, web-site and any other visible of words, and any other graphic form stored in a computer or stored in any other form;
“execution”	Includes any mode of execution (and “executed” shall be construed accordingly)
"Extraordinary Transaction"	A Transaction which is not in the ordinary course of business of the Company; a Transaction which is not on market terms or a Transaction liable to have a material affect on the profitability of the Company, its assets or its liabilities; an arrangement between the Company and an Officer regarding the terms of his office and engagement, including the grant of a release from liability, insurance, and an undertaking to indemnify or an indemnity according to the Indemnity Permit.
“General Meeting”	Any general meeting of the members other than an annual general meeting in accordance with Article 22.4
“holder”	Means (in relation to any share) the member whose name is entered in the Register as the holder or, where the context permits the members whose names are entered in the Register as the joint holders of that share;

"Information"	Including know-how, statistics, financial statements, records of account, documents (including drafts), computer files, computer print-outs, agreements, protocols (including protocols of meetings of the Board of Directors and its committees), registers, business plans, valuations, forecasts, lists of clients, price-lists, costs, market surveys and any other similar information related directly or indirectly to the activities of the Company;
"Israeli Securities Authority"	Means the Israeli Securities Authority as established in accordance with Section 2 of the Israeli Securities Act - 5728.
"London Stock Exchange"	Means London Stock Exchange plc or other principal stock exchange in the United Kingdom for the time being on which the Ordinary Shares are listed;
"Managing Director"	The person holding this title and any person having the authority of a Managing Director, whatever his title.
"Office "or" the Offices of the Company"	The registered office of the Company at the relevant time;
"Officer"	a Director, General Manager, Chief Business Manager, Deputy General Manager, Vice General Manager, any person who holds a said position in the company even if he has a different title, and also any other manager who is directly subject to the authority of the General Manager.
"Ordinary Share"	Means an ordinary share of the Company (as defined in Article 4.1)
"Recognised Person"	Means a recognised clearing house or a nominee of a recognised investment exchange which is designated as mentioned in section 185 (4) CA 1985

"Reduction of Capital"	A distribution which is not a permitted distribution under the provisions of the Companies Law;
"Register"	The shareholders register together with any additional shareholders register that the Company may maintain outside Israel in England/pursuant to Article 40.3;
"Regulations"	Means the Uncertified Securities Regulations 1995 (SI 1995 No.3272) including any modifications thereof and rules made thereunder or any regulations in substitution thereof made under section 207 Companies Act 1989 for the time being in force;
"Secretary"	Means the secretary for the time being of the Company or any other person appointed to perform any of the duties of the secretary of the Company including a joint, temporary, assistant or deputy secretary.
"Security"	Share, debenture, capital note, security, certificate or right entitling membership or participation in the Company or a claim from it (if issued in series), a certificate or right entitling the holder to acquire a security of the Company, in each case whether the security is in name form or bearer form including a debenture or option convertible into shares;
"Simple Majority"	A majority of those present and voting at a general meeting or meeting of the Board of Directors. The vote of any person present at a meeting as aforesaid who does not vote or abstains from voting with respect to any matter on the agenda shall not be included in the number of votes cast;
"Surplus Account"	The profits of the Company as appearing in the books of accounts of the Company;

"These Articles of Association" or "The Articles of Association"	These Articles of Association, as they shall be amended from time to time by the General Meeting;
"Transaction"	A contract or an agreement or a unilateral decision to bestow a right or some other benefit;
"United Kingdom"	Means Great Britain and Northern Ireland;
"writing" or "written"	Means and includes printing, typewriting, lithography, photography and any other modes or mode or representing or reproducing words in a legible and non-transitory form;
"Year" or "Month"	According to the Gregorian calendar;

2. Interpretation

2.1 Subject to the provision of Article 1 above, and unless the context expressly requires some other interpretation, the terms defined in the Companies Law or in the Companies Ordinance, as the case may be, shall bear the same meaning in these Articles of Association; words in the singular shall include the plural and, vice versa; masculine terms shall include the feminine gender, and words indicating individuals shall include corporations.

2.2 Any Article in these Articles of Association which provides for an arrangement which differs in whole or in part from any provision in the Companies Law or the Companies Ordinance, as the case may be, which can be stipulated against, amended or added to, in whole or with regard to specific matters or within specific limitations, in accordance with any law, shall be considered a stipulation against the provision of the Companies Law or Companies Ordinance, as the case may be, even if the actual stipulation is not specified in the said Article, and even if it is expressly stated in the Article (in whatever form) that the effectiveness of the Article is subject to the provisions of any law.

2.3 In the event of a contradiction between any Article and the provisions of any law that may not be stipulated against, amended or added to, the provisions of the said law shall prevail, provided that

nothing thereby shall nullify or impair the effectiveness of these Articles or any other Article therein.

In interpreting any Article or examining its effectiveness, the interpretation shall be given to that Article which is most likely to achieve its purpose as appearing therefrom or as appearing from the other Articles included within these Articles of Association.

PART B: THE COMPANY, ITS OBJECTS AND ITS CAPITAL

3. The Company and its Objects

3.1 The Company is a public company.

3.2 The objects of the Company shall be that it may undertake any lawful activity.

3.3 The Company may contribute reasonable amounts for any suitable purpose or categories of purpose even if such contributions do not fall within business considerations of the Company. The Board of Directors may determine the amounts of the contributions, the purpose or category of purposes for which the contribution is to be made, and the identity of the recipients of any contribution.

3.4 The Company may at any time undertake any kind of business activity which is permitted to the Company under the terms of these Articles, expressly or by implication, and may refrain from these activities, whether or not the Company has commenced that kind of business activity, all in the absolute discretion of the Board of Directors.

4. Capital of the Company

4.1 The authorised share capital of the Company at the date of the adoption of these Articles is NIS 6,000,000 (Six Million New Israel Shekalim) divided into 300,000,000 (Three Hundred Million) Ordinary Shares, nominal value NIS 0.02 .

5. Limited Liability

5.1 The liability of the shareholders of the Company for the indebtedness of the Company shall be limited as follows:

5.2 If the shares of the Company have a nominal value, the liability of each shareholder for the indebtedness of the Company is limited to payment of the nominal value and any premiuim thereon of the shares of that shareholder.

5.3 If at any time the Company shall issue shares with no nominal value, the liability of the shareholders shall be limited to payment of the amount which the shareholders should have paid to the Company in the respect of each share according to the conditions of issue.

6. Rights attaching to the Shares

6.1 The shares of the Company shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions, and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may think fit, and the power to give to any person the option to acquire from the Company any shares, either at par or at a premium, or, subject as aforesaid, at a discount, during such time and for such consideration as the Board of Directors may think fit..

6.2 Unless these Articles provide otherwise, all of the shares shall carry equal rights for all purposes, and each share shall vest in the holder thereof the right:

6.2.1 to receive an invitation to and to participate in each general meeting of the Company, annual or special, and the right to one vote in respect of each share held in every vote at each general meeting of the Company in which he participates provided that the share is owned by the shareholder on the date upon which it is resolved to convene the General Meeting in question;

6.2.2 to receive dividends (if and to the extent distributed), the right to receive bonus shares (if and to the extent distributed) – in each case in accordance with the number of shares and the nominal value of the shares that he holds on the date upon which it is resolved to distribute the dividend or bonus shares or other distribution (as the case may be) or at such later date as shall be provided in the resolution in question;

6.2.3 to participate in the distribution of any surplus assets of the Company upon liquidation.

6.3 Reserved.

6.4 Reserved.

6.5 Subject to the provisions of any law, if any, the Company (acting through the Board of Directors) may issue shares, whether included within the original capital of the Company or as a result of an increase in capital, with rights that are superior or inferior to the outstanding shares, or may issue shares which are preferred or subordinated with regard to distributions, voting rights, the right to repayment of capital or in connection with any other matter, all as the Company shall determine from time to time.

6.6 If at any time the share capital is divided into different classes of shares, the General Meeting may, unless the terms of issue of that class of shares provide otherwise, amend, convert, expand, add to or otherwise alter the rights, preferences, limitations and directions relating to those shares (or which do not relate at such time to one of the classes), provided that the holders of the class of shares that have been issued and whose rights will be affected thereby agree thereto at a meeting of the holders of the shares of the said class.

6.7 The special rights of the holders of any shares or class of shares that have been issued, including shares issued with preferred rights or other special rights, shall not be deemed to have been altered or impaired as a result of the creation or issue of additional shares of equal rank or as a result of the cancellation of authorised share capital of the same class which have not yet been issued, unless it is otherwise specified in the conditions of issue of those shares.

6.8 The consolidation or division of the share capital of the Company shall not be deemed to amend the class rights attaching to the shares which are the subject of such consolidation or division.

6.9 The provisions of these Articles with respect to General Meetings shall apply to all meetings of any class of shareholders, mutatis mutandis.

6.10 Subject to any special provisions in this regard contained in these Articles and to any relevant authority of the Company in general meeting required by CA1985 or by the Companies Law, the unissued shares forming part of the authorised share capital of the Company shall at all times be

under the control of the Board of Directors, which shall be entitled to issue or otherwise deal with them, in favour of such persons, for cash or other non-cash consideration, upon such terms and conditions and at such times as the Board of Directors shall deem fit. The Board of Directors shall have full authority to issue a demand for payment in respect of any shares at such times, for such period and for such consideration as the Board of Directors shall deem fit, and to grant any person the right to demand that any shares be issued to him at such times, for such period and for such consideration as the Board of Directors shall determine in its absolute discretion.

6.11 Subject to Article 9.1 below, the Board of Directors of the Company may resolve to issue shares without nominal value. In the event that shares are issued without nominal value, only the number of such shares shall be fixed in the Articles of Association and the provisions of the Companies Law regarding the conversion of shares with a nominal value to shares with no nominal value or the provisions of these Articles of Association dealing with authorised or issued capital shall apply, mutatis mutandis.

6.12 The Board of Directors of the Company may pay brokerage, underwriting or agents fees in connection with any issue of securities of the Company, in such a manner as the Board of Directors shall determine, and subject to the provisions of any law.

6.13 Subject to the provisions of the Companies Law, all or any of the rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound up) be varied or abrogated with the consent in writing of the holders of three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares.

7. Shareholders

7.1 A shareholder ("Shareholder") is any one of the following:

(1) a person to whose credit a share is registered with a stock exchange shareholder, and that share is included among the shares registered in the name of a registration company in the register of the Company's shareholders ("**Shareholders Register**");

(2) a person registered as a shareholder in the shareholders Register in accordance with Part C [Share Certificates/Uncertified Shares]

(3) a person who holds a share certificate.

7.2 Unless otherwise specified in any law or in these Articles, the Company shall be entitled to treat the registered holder of any share, including a shareholder holding a share on trust, as the absolute owner, and accordingly shall not be required to recognize any claim on the part of any person on the basis of any equitable right or on any other basis in relation to such share, or in relation to any benefit therein on the part of any other person unless an order to this effect has been given by a court of competent jurisdiction.

7.3 The Board of Directors of the Company may, from time to time, settle procedures in connection with determining the identity of shareholders and in connection with the manner in which any right, benefit, asset or amount should be transferred to or distributed among them, including, without limitation, with respect to the distribution of dividends or bonus shares, and with respect to the grant of any right, asset or other benefit to the shareholders of the Company in their capacity as such. Any monies, bonus shares, rights or property of any kind that are transferred to a shareholder (including to his agent, attorney or to any other person that the shareholder directs) whose identity has been authenticated in accordance with the procedures as aforesaid shall be deemed settlement in full and release of the indebtedness of the Company towards any person claiming a right to such payment, transfer, distribution or grant of right, as the case maybe.

8. Changes in Share Capital

8.1 The General Meeting of the Company may, from time to time, by resolution requiring the approval of shareholders holding a majority of the voting rights in the Company, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its share capital. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

8.2 Except to the extent otherwise provided in such resolution, any new shares included in the authorized share capital increased as aforesaid shall be subject to all the provisions of these Articles which are

applicable to shares included in the existing share capital without regard to class (and, if such new shares are of the same class as a class of shares included in the existing share capital, to all of the provisions which are applicable to shares of such class included in the existing share capital).

8.3 The General Meeting of the Company may, from time to time, cancel any of its unissued authorised share capital, unless there is any outstanding obligation on the part of the Company, including a conditional obligation, to issue the shares.

8.4 Subject to the provisions of any law and the provisions of these Articles, the Company shall be entitled, from time to time, to cancel any issued share capital.

9. Special Rights; Modifications of Rights

9.1 Subject to the provisions of these Articles, and without prejudice to any special rights previously conferred upon the holders of existing shares in the Company, the Company may, from time to time, by resolution requiring the approval of shareholders holding a majority of the voting rights in the Company present at such shareholders meeting, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

9.2 The provisions of these Articles relating to General Meetings shall, mutatis mutandis, apply to any separate General Meeting of the holders of the shares of a particular class, provided, however, that the requisite quorum at any such separate General Meeting shall be one or more shareholders present in person or proxy and holding not less than one-third of the issued shares of such class.

9.3 Unless otherwise provided by these Articles, the enlargement of an authorized class of shares , or the issuance of additional shares thereof out of the authorized and unissued share capital, shall not be deemed, for purposes of this Article 9, to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

9.4 Subject to the terms of issue or of rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking pari passu in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such

shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of these Articles.

10. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

10.1 The Company may, from time to time, by resolution requiring the approval of shareholders holding a majority of the voting rights in the Company present at such shareholders meeting (subject, however, to the provisions of applicable law):

10.1.1 consolidate and divide all or any of its issued or unissued authorized share capital into shares of a per share nominal value which is larger than the per share nominal value of its existing shares,

10.1.2 subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles.

10.1.3 cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled, or

10.1.4 reduce its share capital in any manner, and with and subject to any incident authorized, and consent required, by law.

10.2 Subject to the provisions of these Articles, with respect to any consolidation of issued shares into shares of a larger nominal value per share, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, and, in connection with any such consolidation or other action which could result in fractional shares, may, without limiting its aforesaid power:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into a share of a larger nominal value per share;

(ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;

(iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees of such fractional shares to pay the transferors thereof the fair value thereof, and the Board of Directors is hereby authorized to act in connection with such transfer, as agent for the transferors and transferees of any such fractional shares, with full power of substitution, for the purpose of implementing the provisions of this sub-Article 10.2.

PART C: THE SHARES

11. Share Certificates

11.1.1 Share certificates shall be signed by authorised signatories designated by the Board of Directors, together with the name of the Company in printed form or rubber stamp.

11.1.2 Each shareholder whose name appears in the Register shall be entitled to receive one share certificate in respect of the shares registered in his name, or, if the Board of Directors so authorises (and after payment of the amount which the Board of Directors shall determine from time to time) to a number of share certificates, each one in respect of one or more of these shares; each share certificate shall indicate the name of the shareholder, the number of shares in respect of which it has been issued, and additional particulars that shall be determined by the Board of Directors.

11.1.3 A certificate in respect of a share registered in the names of two or more persons shall be delivered, to the person whose name appears first on the Register from among the names of the joint owners.

11.1.4 If a certificate is lost or damaged, or a shareholder holding more than one certificate representing the same class of shares and wishes to combine them into one certificate, the Board of Directors may issue a new certificate in its place, provided that that the original certificate is presented to and destroyed by the Board of Directors, or it is proved to the satisfaction of the Board of Directors that the certificate has been lost or destroyed, and the Board of Director receives security satisfactory to it in respect for any possible damage, in each case against payment if a requirement for such a payment is imposed.

11.1.5 The Company shall not issue shares other than shares that are paid in full. Shares shall be deemed to have been paid in full if the full amount of the nominal value and any premium thereon has been paid, in accordance with the terms of issue of the shares.

11.1.6 No certificate shall be issued representing shares held by a Recognised Person.

11.2 Uncertified shares

.2.1 Notwithstanding anything in these Articles to the contrary any shares in the Company may be issued, held, registered, converted to, transferred or otherwise dealt with in uncertified form and converted from uncertificated form to certificated form in accordance with the Regulations and practices instituted by the operator of the relevant system. Any provisions of these Articles shall not apply to any uncertificated shares to the extent that such provisions are inconsistent with:

.2.1.1 the holding of shares in uncertificated form;

.2.1.2 the transfer of title to shares by means of a relevant system; or

.2.1.3 any provision of the Regulations

.2.2 Without prejudice to the generality and effectiveness of the foregoing:

.2.2.1 Article 11.1 and 12 shall not apply to uncertificated shares and any reference to registering a transfer of a share in Article 12 shall apply in relation to such shares as if the reference therein to the date on which the transfer was lodged with the Company were a reference to the date on which the appropriate instruction was received by or on behalf of the Company in accordance with the facilities and requirments of the relevant system;

.2.2.2 without prejudice to Article 12 in relation to uncertified shares, the Board may also refuse to register a transfer of uncertificated shares in such other circumstances as may be permitted or required by the Regulations and the relevant system;

.2.2.3 references in these Articles to a requirement on any person to execute or deliver an instrument of transfer or certificate or other document which shall not be appropriate in the case of uncertificated shares shall, in the case of uncertificated shares, be treated as references to a requirment to comply with any relevant requirements of the relevant system and any relevant arrangements or regulations which the Board may make from time to time pursuant to Article 11.2.2.11 below;

.2.2.4 for the purposes referred to in Article 21 a person entitled by transmission to a share in uncertificated from who elects to have some other person registered shall either:

(i) procure that instructions are given by means of the relevant system to effect transfer of such uncertificated share to that person; or

(ii) change the uncertificated share to certificated form and execute an instrument of transfer of that certificated share to that person;

1.2.2.5 the Company shall enter on the Register the number of shares which are held by each member in uncertificated form and in certificated form and shall maintain the Register in each case as is required by the Regulations and the relevant system and, unless the Board otherwise determines, holdings of the same holder or joint holders in certificated form and uncertificated form shall be treated as separate holdings;

1.2.2.6 a class of share shall not be treated as two classes by virtue only of that class comprising both certificated shares and uncertificated shares or as a result of any provision of these Articles or the Regulations which applies only in respect of certificated shares or uncertificated shares;

1.2.2.7 for the purposes referred to in Article 11.2.1 the Board may in respect of uncertificated shares authorise some person to transfer and/or require the holder to transfer the relevant shares in accordance with the facilities and requirements of the relevant system;

1.2.2.8 for the purposes of Article 44, any payment in the case of uncertificated shares may be made by means of the relevant system (subject always to the facilities and requirements of the relevant system) and without prejudice to the generality of the foregoing such payment may be made by the sending by the Company or any person on its behalf of an instruction to the operator of the relevant system to credit the cash memorandum account of the holder or joint holders of such shares or, if permitted by the Company, of such person as the holder or joint holders may in writing direct and for the purposes of Article 44 the making of a payment in accordance with the facilities and requirements of the relevant system concerned shall be a good discharge to the Company;

1.2.2.9 subject to CA 1985 and the Regulations the Board may issue shares as certificated shares or as uncertificated shares in its absolute discretion and Article 43 shall be construed accordingly;

1.2.2.10 the Board may make such arrangements or regulations (if any) as it may from time to time in its absolute discretion think fit in relation to the evidencing and transfer of uncertificated shares and otherwise for the purpose of implementing and/or supplementing the provisions of this Article 11.2 and the Regulations and the facilities and requirements of the relevant system and such arrangements and regulations (as the case may be) shall have the same

effect as if set out in this Article 11.2;

1.2.2.11 the Board may utilise the relevant system to the fullest extent available from time to time in the exercise of the Company's powers or functions under CA 1985 or these Articles or otherwise in effecting any actions including permitting shares to be transferred to a Depository for the purposes of facilitating trading of interest in shares within the relevant system in accordance with the Regulations; and

1.2.2.12 the Board may resolve that a class of shares is to become a participating security and may at any time determine that a class of shares shall cease to be a participating security.

1.2.3 Where any class of shares in the capital of the Company is a participating security and the Company is entitled under any provisions of CA 1985 or the rules made and practices instituted by the operator of any relevant system or under these Articles to dispose of, forfeit, enforce a lien or sell or otherwise procure the sale of any shares which are held in uncertificated form, such entitlement (to the extent permitted by the Regulations and the rules made and practices instituted by the operator of the relevant system) shall include the right to:

1.2.3.1 request or require the deletion of any computer-based entries in the relevant system relating to the holding of such shares in uncertificated form; and/or

1.2.3.2 require any holder of any uncertificated shares which are the subject of any exercise by the Company of any such entitlement, by notice in writing to the holder concerned, to change his holding of such uncertificated shares into certificated form within such period as may be specified in the notice, prior to completion of any disposal, sale or transfer of such shares or direct the holder to take such steps, by instructions given by means of a relevant system or otherwise, as may be necessary to sell or transfer such shares; and/or

1.2.3.3 appoint any person to take such other steps, by instruction given by means of a relevant system or otherwise, in the name of the holder of such shares as may be required to effect a transfer of such shares and such steps shall be as effective as if they had been taken by the registered holder of the uncertificated shares concerned; and/or

1.2.3.4 transfer any uncertificated shares which are the subject of any exercise by the Company of any such entitlement by entering the name of the transferee in the Register in respect of that share as a transferred share; and/or

1.2.3.5 otherwise rectify or change the Register in respect of that share in such manner as may be appropriate; and

1.2.3.6 take such other action as may be necessary to enable those shares to be registered in the name of the person to whom the shares have been sold or disposed of or as directed by him.

11.2.4 For the purposes of this Article 11:

11.2.4.1 words and expressions shall have the same respective meanings as in the Regulations;

11.2.4.2 references herein to an uncertificated share or to a share (or to a holding of shares) being in uncertificated form are references to that share being an uncertificated unit of a security, and references to a certificated share or to a share being in certificated form are references to that share being a unit of a security which is not an uncertificated unit; and

11.2.4.3 "cash memorandum account" means an account so designated by the operator of the relevant system.

12. Transfer of Shares

12.1 Subject to such of the restrictions of these Articles as may be applicable, each member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the Register in respect of it.

12.2 The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share (or renunciation of a renounceable letter of allotment) unless:

2.2.1 it is in respect of share which is fully paid up;

2.2.2 it is in respect of only one class of shares;

2.2.3 it is in favour of a single transferee or not more than four joint transferres;

2.2.4 it is duly stamped (if so required); and

2.2.5 it is delivered for registration to the Office or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so;

provided that the Board shall not refuse to register any transfer or renunciation of partly paid shares which are listed on the London Stock Exchange on the grounds that they are partly paid shares in

circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

13. **Notice of refusal**

13.1 If the Board refuses to register a transfer of a share it shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee. Any instrument of transfer which the Board refuses to register shall (except in the case of suspected or actual fraud) be returned to the person depositing it. All instruments of transfer which are registered may be retained by the Company.

14. **Calls on Shares**

14.1 The Board of Directors may, from time to time, as it, in its discretion, deems fit, make calls for payment upon shareholders in respect of any sum which has not been paid up in respect of shares held by such shareholders and which is not, pursuant to the terms of allotment or issue of such shares or otherwise, payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all the shares in respect of which such call was made.

14.2 Notice of any call for payment by a shareholder shall be given in writing to such shareholder not less than fourteen (14) days prior to the time of payment fixed in such notice, and shall specify the time and place of payment, and the person to whom such payment is to be made. Prior to the time for any such payment fixed in a notice of a call given to a shareholder, the Board of Directors may in its absolute discretion, by notice in writing to such shareholder, revoke such call in whole or in part, extend the time fixed for payment thereof, or designate a different place of payment or person to whom payment is to be made. In the event of a call payable in installments, only one notice thereof need be given.

14.3 If pursuant to the terms of allotment or issue of a share or otherwise, an amount is made payable at a fixed time (whether on account of such share or by way of premium), such amount shall be payable at such time as if it were payable by virtue of a call made by the Board of Directors and for which notice was given in accordance with paragraphs (a) and (b) of this Article 13, and the provisions of these

Articles with regard to calls and the non-payment thereof shall be applicable to such amount and the non-payment thereof.

14.4 Joint holders of a share shall be jointly and severally liable to pay all calls for payment in respect of such share and all interest payable thereon.

14.5 Any shareholder on whom a call is made shall remain liable to pay all calls notwithstanding the subsequent transfer to a third party of the shares in connection to which the call was made.

14.6 Any amount called for payment which is not paid when due shall bear interest from the date fixed for until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and payable at such time(s) as the Board of Directors may prescribe. In addition, all shareholder rights belonging to the shareholder who has not paid following a call shall be suspended until any amount called for payment, or installment thereof approved by the Board of Directors, has been paid.

14.7 Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amounts and times for payment of calls for payment in respect of such shares.

15 **Prepayment**

With the approval of the Board of Directors, any shareholder may pay to the Company any amount not yet payable in respect of his shares, and the Board of Directors may approve the payment by the Company of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board of Directors. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 14 shall derogate from the right of the Board of Directors to make any call for payment before or after receipt by the Company of any such advance.

16. Forfeiture and Surrender

16.1 If any shareholder fails to pay an amount payable by virtue of a call, or interest thereon as provided for in accordance herewith, on or before the day fixed for payment of the same, the Board of Directors, may at any time after the day fixed for such payment, so long as such amount (or any portion thereof) or interest thereon (or any portion thereof) remains unpaid, forfeit all or any of the shares in respect of

which such payment was called for. All expenses incurred by the Company in attempting to collect any such amount or interest thereon, including, without limitation, attorneys' fees and costs of legal proceedings, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of, the amount payable to the Company in respect of such call.

16.2 Upon the adoption of a resolution as to the forfeiture of a shareholder's share, the Board of Directors shall cause notice thereof to be given to such shareholder, which notice shall state that, in the event of the failure to pay the entire amount so payable by a date specified in the notice (which date shall be not less than fourteen (14) days after the date such notice is given and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to such date, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

16.3 Without derogating from any other provision under these Articles, whenever shares are forfeited as herein provided, all dividends, if any, theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

16.4 The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

16.5 Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors deems fit.

16.6 Any shareholder whose shares have been forfeited or surrendered shall cease to be a shareholder in respect of the forfeited or surrendered shares, and shall return all relevant share certificates to the Company immediately. However, such shareholder shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 13.6 above, and the Board of Directors, in its discretion, may, but shall not be obligated to, enforce the payment of such moneys, or any part thereof. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing to the Company by

the shareholder in question (but not yet due) in respect of all shares owned by such shareholder, solely or jointly with another.

16.7 The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it deems fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 15.

17. Lien

17.1 Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each shareholder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements to the Company arising from any amount payable by such shareholder in respect of any unpaid or partly paid share, whether or not such debt, liability or engagement has matured. Such lien shall extend to all dividends from time to time declared or paid in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

17.2 The Board of Directors may cause the Company to sell a share subject to such a lien when the debt, liability or engagement giving rise to such lien has matured, in such manner as the Board of Directors deems fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such shareholder, his executors or administrators.

17.3 The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such shareholder in respect of such share (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the shareholder, his executors, administrators or assigns.

18. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of a share after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint any person to execute an instrument of transfer of the share so sold and cause the purchaser's name to be entered in the Shareholders Register in respect of such share. The purchaser shall be registered as the shareholder and shall not be bound to see to the regularity of the sale proceedings, or to the application of the proceeds of such sale, and after his name has been entered in the Shareholders Register in respect of such share, the validity of the sale shall not be impeached by any person, and the remedy of any person aggrieved by the sale shall be in damages only and against the Company exclusively.

19 Redeemable Shares

19.1 The Company may, subject to applicable law, issue redeemable shares and redeem the same.

19.2 Where a power is reserved to purchase redeemable shares: (i) unless a tender or partial offer is made to all holders of the class of securities on the same terms, the purchase must be limited to a maximum price which, in the case of purchasers through the market of redeemable shares other than those that are normally brought and traded by a limited number of investors who are particularly knowledgeable in investment matters, must not exceed five percent (5%) above the average market value for ten (10) consecutive business days before the purchases; and (ii) if purchases are made by tender, tenders must be available to all shareholders on equal terms..

20 Conversion of Shares into Stock

20.1 Subject to the provisions of Articles 9.2 hereof, the Board of Directors may, with the sanction of the shareholders previously given by resolution requiring the approval of shareholders holding a majority of the voting rights in the Company present at such shareholders meeting, convert any paid-up shares into stock, and may, with like sanction, reconvert any stock into paid-up shares of any denomination.

20.2 The holders of stock may transfer the same, or any part thereof, in the same manner and subject to the same regulations, as the shares from which the stock arose might have been transferred prior to conversion, or as near thereto as circumstances admit, provided, however, that the Board of Directors may from time to time fix the minimum amount of stock so transferable, and restrict or forbid the transfer of fractions of such minimum, but the minimum shall not exceed the nominal value of each of the shares from which such stock arose.

20.3 The holders of stock shall, in accordance with the amount of stock held by them, have the same rights and privileges as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which such stock arose, but no such right or privilege, except participation in the dividends and profits of the Company, shall be conferred by any such aliquot part of such stock as would not, if existing in shares, have conferred that right or privilege.

20.4 Such of the Articles of the Company as are applicable to paid-up shares shall apply to stock, and the words "share" and "shareholder" (or "shareholder") therein shall include "stock" and "stockholder."

21 Decedents' Shares

In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 20.2 have been effectively invoked.

Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient), shall be registered as a member in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

PART D – GENERAL MEETINGS

22 Convening a General Meeting

22.1 An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place, either within or without the State of Israel, as may be determined by the Board of Directors.

22.2 Unless otherwise expressly directed by a court of competent jurisdiction, the provisions of these Articles shall apply, with such changes as shall be required in the circumstances, to the convening, conduct and proceedings of a General Meeting convened by order of a court of competent jurisdiction and of a General Meeting lawfully convened other than by the Board of Directors, and to any vote at such meeting.

22.3 Subject to the provisions of the Companies Law, each General Meeting shall be convened at such place as the Board of Directors shall direct, or, if the Board of Directors does not direct a location for convening the meeting, at such place as the Chairman of the Board of Directors shall direct. If no location for the convening of the meeting is specified by the Board of Directors or by the Chairman of the Board of Directors, the meeting shall convene at the Offices of the Company.

22.4 All General Meetings other than Annual General Meetings shall be called "Special Meetings." The Board of Directors shall convene a Special Meeting in accordance with a resolution of the Board of Directors, and also at the request of each of the following:

(a) one Director;

(b) one or more shareholders holding at least 10% of the issued share capital and at least 1% of the voting rights of the Company;

(c) one or more shareholder holding at least 10% of the voting rights of the Company.

22.5 The agenda for a General Meeting shall be determined by the Board of Directors and shall include also the matters in respect of which the convening of the General Meeting was requested. One or more shareholder holding at least 1% of the voting rights at a General Meeting may request the Board of Directors to include a matter on the agenda for a General Meeting that is to be convened in the future, provided that the matter is within the scope of the shareholders powers as set out in Section 57 of the Companies Act.

22.6 At a General Meeting, only matters included on the agenda shall be brought to a vote.

23 Notices to Shareholders

23.1 Notice of a General Meeting shall be delivered at least 21 days prior to the date for convening of the meeting (but not more than 45 days before such date) to each of the shareholders registered in the Register, in the manner specified in these Articles.

23.2 The notice of the General Meeting shall specify the date and place of convening the meeting, the agenda, reasonable details of the matters to be discussed at the meeting and arrangements for voting

by proxy if the matters on the agenda for the meeting include matters in respect of which shareholders may vote by proxy under any law or in accordance with these Articles. If the agenda for the meeting includes a proposal to amend these Articles, the text of the proposed amendment shall be specified.

23.3 If the Company has reason to believe that an address provided by a shareholder is no longer that shareholder's address, the shareholder shall be deemed not to have provided the Company with an address in each of the following instances:

(a) If the Company has sent the shareholder a letter by registered mail to that address, requiring the shareholder to confirm that the said address is still his address or to notify the Company of a new address and the Company has not received a reply within 60 days from the date of delivery of the said letter by the Company to the post office.

(b) If the Company has sent a letter by registered mail to the shareholder at the said address and the Postal Service - whether or not the Postal Service has returned the letter – has notified the Company that the letter was not delivered to the shareholder at the said address since he is not known at the said address or for any other similar reason.

22.4 Subject to the provisions of any law:

(a) the Company may deliver any notice and any document to a shareholder by hand or by mail to the address which the shareholder has provided to the Company;

(b) the Company may deliver any notice and any document to a shareholder by delivering the same to him in any other manner in writing, unless prohibited by law;

(c) confirmation in writing signed by an Officer of the Company regarding the delivery of a document or the service of notice in any of the manners specified above shall be deemed prima facie evidence of every matter contained therein;

(d) notice of a General Meeting shall be delivered in one of the manners specified above to each person who has the right to a share as a result of the death, bankruptcy or liquidation of a shareholder and who, but for any of the aforesaid circumstances, would have been entitled to receive notice of the General Meeting.

(e) Notwithstanding anything contained in this Article 22.4 above, the Company may in lieu of sending separate notices to all the shareholders as set forth above, deliver notice to its shareholders by way of publishing a notice, in English, simultaneously in one widely available national newspaper in the United Kingdom and one widely available national newspaper in Israel. Such notice shall include all the details required by these Articles and by the applicable law for the convening of a shareholders meeting. Delivery of a notice by way of publishing in the newspapers as set forth above shall be deemed for all purposes as appropriate notice to the shareholders as required by these Articles.

23.5 Each shareholder may waive his right to receive notice or his right to receive a notice at any specified time, and may agree that a General Meeting be convened and decisions taken thereat even though he has not received notice of the meeting or has not received notice within a specified time, in each case subject to the provisions of any law prohibiting a waiver or agreement of this nature.

23.6 The Company may give notice to joint holders of any share by notice to the joint holder whose name is first recorded on the Register with respect to that share.

23.7 The validity of any resolutions carried at a General Meeting shall not be affected if the Company, by oversight, has not sent a notice of the convening of the meeting to a shareholder entitled to receive written notice of the convening the meeting, or has sent an incomplete or incorrect notice regarding the convening of the meeting or its agenda, or has not served a notice as aforesaid to the shareholder or has delayed in sending or delivering the said notice.

23.8 Any document or notice delivered by the Company in accordance with the provisions of these Articles shall be deemed to have been properly served notwithstanding the death, bankruptcy or liquidation of that shareholder (whether or not the Company knew of the circumstance) so long as no other person has been registered in his place as shareholder in the Register, and delivery or service as aforesaid shall be deemed sufficient for all purposes with respect to any person who claims to be entitled to the shares in question.

24 Resolutions at General Meetings

24.1 No discussion shall be commenced at a general meeting unless a quorum is present at the commencement of the meeting. Other than where a different rule is provided in these Articles or by

any law or by a court of competent jurisdiction, a quorum shall be two or more shareholders present in person or by proxy or by written proxy, who hold an aggregate of at least one quarter (25%) of the voting rights in the Company

24.2 If half an hour after the time set for the General Meeting no quorum is present, the meeting shall automatically be adjourned until the same day and same time one week thereafter, at the same place fixed for the original meeting (with no need for any notice to the shareholders) or until such other later time if such time is specified in the original notice convening the General Meeting, or if the Company serves notice to the shareholders no less than 72 hours before the date fixed for the adjourned meeting.

24.3 If at an adjourned meeting there is no quorum present half an hour after the time set for the meeting, any number participating in the meeting shall represent a quorum and shall be entitled to discuss the matters set down on the agenda for the original meeting.

24.4 Notwithstanding any other provision in these Articles, if the convening of a special meeting is demanded other than by resolution of the Board of Directors of the Company, the adjourned meeting shall take place only if there are present at least two shareholders holding voting rights in an amount no less than the amount required in order to constitute a quorum at the original meeting. If there is no quorum as aforesaid at the adjourned meeting, the meeting shall not be adjourned to another date and all of the proposed resolutions on the agenda shall be deemed to have been rejected by the meeting.

24.5 The Chairman of the Board of Directors of the Company shall act as Chairman of every General Meeting of the Company. If there is no Chairman of the Board of Directors of the Company and the Board of Directors has not determined that another individual shall act as Chairman of the meeting as aforesaid, or if the proposed Chairman is not present fifteen minutes after the time set for the meeting, or if that person does not wish to act as Chairman of the meeting, the shareholders present at the meeting shall themselves or by their proxies elect a shareholder or a proxy present at the meeting to act as Chairman of the meeting.

24.6 The Chairman of the meeting may, with the agreement of a meeting at which a quorum is present, postpone the meeting from time to time and from place to place, and he must postpone the meeting as aforesaid if the meeting directs him to do so. At a resumption of the meeting that has been adjourned as aforesaid, only those matters shall be discussed which were on the agenda of the

original meeting and the discussion of which was not completed or commenced. There shall be no need to give any notice regarding the resumption of the adjourned meeting and regarding the matters on the agenda of the adjourned meeting.

24.7 A resolution at a General Meeting shall be carried by a vote of the shareholders present and voting at the meeting, in person or by proxy. Every question submitted to a General Meeting shall be decided by a show of hands, but if a written ballot is demanded by a majority of the members present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the proposed resolution is voted upon or immediately after the declaration by the Chairman of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another member may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot has been demanded.

24.8 Unless otherwise set forth in these Articles or required by Law, each resolution of the General Meeting shall be carried by a simple majority.

24.9 Each share shall entitle the holder thereof to one vote for each share which belongs to him and to which a voting right is attached without regard to the nominal value of that share, unless the terms of issue of the share provide otherwise.

24.10 The announcement by the Chairman that a resolution has been carried unanimously or by a certain majority or has been rejected shall be prima facie evidence of that fact. An announcement as aforesaid and a notification to this effect that has been recorded in the minute books of the Company shall be prima facie evidence of the matter stated therein and there shall be no need to prove the number of votes or the proportion of the votes cast in favour or against the proposed resolution.

25. Voting by Proxy and in Other Manners

25.1 A resolution may be adopted at a General Meeting without notice and without the meeting having been duly convened, provided that the resolution is carried unanimously by the shareholders entitled to vote at the General Meeting.

25.2 A corporation which is a shareholder in the Company may authorise an Officer in the corporation to be its representative at any meeting of the Company. A person authorised as aforesaid shall be entitled to make use, on behalf of the corporation that he represents, of the same powers which the corporation itself could have used if it was an individual shareholder in the Company.

25.3 A shareholder who is a minor and a shareholder who has been declared legally incompetent by a court of competent jurisdiction may vote only through his guardian, and the said guardian may vote by proxy.

25.4 In the case of joint owners of a share, the vote of the principal joint owner shall be accepted by the Company, whether given in person or by proxy, and the vote of the remaining joint owners shall not be accepted. For the purpose of this Article, the principal joint owner shall be deemed to be the shareholder whose name first appears in the Shareholders Register with respect to the relevant shares.

25.5 A shareholder may appoint a proxy to vote in his place and the proxy need not be a shareholder in the Company. The appointment of a proxy shall be in writing signed by the person making the appointment or by an attorney authorised for this purpose, and if the person making the appointment is a corporation, by a person or persons authorised to bind the corporation.

25.6 The document appointing the proxy to vote (the "**Appointment**") and power of attorney (if any) pursuant to which the Appointment has been signed, or a copy thereof certified to the satisfaction of the Board of Directors, shall be deposited in the Office or at such other address as shall be specifiedin the notice of the meeting not less than 48 hours before the time of the meeting at which the person specified in the Appointment is due to vote.

25.7 A shareholder holding more than one share may appoint more than one proxy, subject to the following provisions:

(a) The Appointment shall indicate the class and number of shares in respect of which it is given;

(b) If the number of the shares of any class specified in the Appointments that have been given by one shareholder exceeds the number of shares of that class held by him, all of the Appointments given by that shareholder shall be void;

(c) If only one proxy is appointed by the shareholder and the Appointment does not indicate the number and class of shares in respect of which it is given, the Appointment shall be deemed to have been given with respect to all of the shares owned by the shareholder at the time for determining the entitlement to participate and vote in the meeting (if the Appointment is given for a specific meeting) or in respect of all of the shares held by the shareholder at the date of depositing the Appointment with the Company or on the date of delivery to the Chairman of the meeting, as the case may be. In the event that an Appointment is given with respect to a number of shares less than the number of shares held by the shareholder, the shareholder shall be deemed to have abstained from voting with respect to the remainder of the shares that he owns and the Appointment shall be valid with respect to the number of shares specified therein.

25.8 Each appointment of a proxy, whether for a specific meeting or otherwise, shall, to the extent that the circumstances permit, be substantially in the following form (or such other form as shall be approved by the Board of Directors):

I, _____ (I.D. Number/Company Number _____) of _____, in my capacity as shareholder in _____ Limited, hereby appoint _____, (I.D. Number/Company Number _____) of _____, or in his/her absence, _____, (I.D. Number/Company Number _____) of _____, to vote on my behalf and in my name with respect to _____ Class __ shares held by me at the (annual/special) meeting of the Company that shall be held on the ___ day of _____, and at any adjournment of such meeting.

In witness whereof I have signed hereon this ___ day of _____.

_____

Name and Signature

25.9 A vote cast pursuant to an Appointment appointing a proxy shall be valid notwithstanding the death of the person making the Appointment or the cancellation of the power of attorney or the transfer of the share in respect of which the vote is cast as aforesaid, unless notice in writing of the death, cancellation or transfer as aforesaid has been received in the Offices of the Company or by the Chairman of the meeting, by the time of the vote.

PART E: THE BOARD OF DIRECTORS

26. The Board of Directors, Appointment and Dismissal of Directors

26.1 Until such time as the General Meeting decides otherwise, the number of members of the Board of Directors shall be not less than five (5) and not more than twelve (12).

26.2 The Directors of the Company shall be appointed by a simple majority of the shareholders at a duly convened General Meeting for a term of office which, unless terminated earlier as set forth in there Articles, shall expire upon the closing of the next Annual General Meeting. All the Director's term of office shall expire upon the closing of the next General Meeting appointing Directors of the Company.

26.3 A Director may be removed from office by a simple majority of the shareholders of the Company at a duly convened General Meeting.

26.4 A Director who has been appointed or removed from office in accordance with these Articles shall commence his duties or shall cease to serve as Director, as the case may be, on the effective date of the closing of the General Meeting appointing or removing such Director as applicable.

26.5 In addition to the Directors who shall be appointed by written notice as aforesaid, the Board of Directors of the Company may at its discretion appoint additional Directors, provided that the number of members of the Board of Directors after such appointment shall not exceed the maximum number of Directors fixed in these Articles.

26.6 A Director appointed by the Board of Directors shall commence his duties on the date fixed by the Board of Directors and such office shall expire, unless terminated earlier in accordance with these Articles, upon the closing of the next Annual General Meeting of the Company

26.7 Subject to the provisions of any law, a Director who has ceased to act as Director is eligible to be re-appointed.

26.8 Subject to the provisions of any law, the office of a Director shall be vacated (including the office of an Alternate Director and a Corporate Representative as defined in Article 26.5 below) automatically in each of the following events:-

(a) upon his death;

(b) if he is declared to be legally incompetent;

(c) if he is declared bankrupt, and if the Director is a corporation, if a liquidator, receiver, special manager or trustee (in each case temporary or permanent) is appointed for the corporation or its assets within the context of a creditors scheme of arrangement or an order of stay of proceedings;

(d) if he resigns from office by written notice to the Company, to the Chairman of the Board of Directors or to the Board of Directors, in which case the office of the Director shall be vacated on the date of service of notice or at such later date as is specified in the notice as the effective date of resignation;

(e) if his period of office has terminated in accordance with the provisions of these Articles;

(f) if the Director is convicted in a final judgment of an offence of a nature which disqualifies a person from serving as a company director;

(g) if a court of competent jurisdiction decides to terminate his office in a decision or judgment for which no stay of enforcement granted.

26.9 Notwithstanding anything stated in these Articles, the appointment of a Director, an Alternate Director or a Corporate Representative, as the case may be, (together "**the Appointee**") shall not come into effect before the Appointee has delivered to the Company a notice in writing in which the Appointee declares that he is lawfully competent to be appointed as a Director of the Company and that he agrees to be appointed as Director of the Company. The notice shall include the personal details of the Appointee for entry into the register of Directors of the Company ("**Register of Directors**") of the Company and any other particulars required by law. The form of the aforesaid notice shall be set down by the Board of Directors from time to time and may be in the form of an affidavit prepared and authenticated in accordance with the law.

26.10 If any Director is not appointed, or if the appointment of any Director does not come into force, or if the office of Director becomes vacant, the remaining Directors may act in any manner provided that their number does not fall below the minimum number specified in these Articles. If the number of Directors falls below the minimum number as aforesaid, the Directors shall not be able to act other than in emergencies, or for the purpose of convening a General Meeting, or for the purpose of the appointment of additional Directors by the Board of Directors.

26.11 A corporation is fit to act as a Director and as an Alternate Director of the Company.

27. Alternate Director and Corporate Representative

27.1 A Director may at any time appoint an alternate ("the **Alternate Director**"), who is fit to serve as Director of the Company (other than a person as aforesaid who at that time is serving as a Director, an Alternate Director of another Director or as an individual serving as a "**Corporate Representative**", as defined in Article 26.5 below). So long as the appointment of the Alternate Director remains in force, the Alternate Director alone is entitled to participate in any meeting of the Board of Directors and he shall have all of the duties, rights and authorities (other than the authority to appoint an alternate for himself) which the Director who appointed him has, but without thereby limiting the liability under any law of the Director who appointed him.

27.2 An Alternate Director may not serve as an alternate or Corporate Representative of more than one Director.

27.3 The appointment of an Alternate Director and the cancellation thereof shall be by written notice that the appointing Director shall deliver to the Company. The appointment and cancellation of appointment shall come into effect on the date of delivery of the notice to the Company or the date specified in the notice, whichever shall be later.

27.4 A Director who appoints an Alternate Director may at any time cancel the appointment. In addition, the office of Alternate Director shall be vacated whenever the Alternate Director shall notify the Company in writing of his resignation from office as Alternate Director, with effect from the date of his notice or whenever the Director who has appointed the Alternate Director ceases to be a Director of the Company for whatever reason.

27.5 A corporation which acts as Director or Alternate Director shall appoint an individual who is qualified to be appointed as a Director of the Company to act on its behalf on the Board of Directors (the "**Corporate Representative**").

27.6 The appointment of a Corporate Representative and the cancellation thereof shall be by notice in writing which the appointing corporation shall deliver to the Company, and shall come into effect on the date of service of notice to the Company or on the date specified in the notice, whichever shall be later.

27.7 The appointing corporation shall not be entitled to the rights or authorities of a Director at a time at which the corporation has no validly appointed Corporate Representative.

28. Directors Remuneration

Subject to any approval required by law, a Director shall be entitled to receive from the Company director's remuneration, a benefit, and reimbursement or payment on account of expenses.

29. Chairman of the Board of Directors

29.1 The Board of Directors may appoint one of the Directors to act as Chairman of the Board of Directors, and may remove the Chairman of the Board of Directors and appoint another person in his place. The Chairman of the Board of Directors shall not have a casting vote at meetings of the Board of Directors.

29.2 The Chairman of the Board of Directors may, from time to time by written notice to the Company, appoint another Director to act as a Deputy Chairman of the Board of Directors, to dismiss the Deputy Chairman and to appoint another in his place, provided that the tenure of the Deputy Chairman of the Board of Directors shall not cease even if the person who appointed him ceases to act as Chairman of the Board of Directors or as a Director, unless the Board of Directors decides otherwise. If the Chairman of the Board of Directors is not present 15 minutes after the beginning of a meeting of the Board of Directors, or if he does not wish to sit as Chairman of the meeting, the Deputy Chairman shall conduct the meeting and may exercise all of the authorities vested in the Chairman of the Board of Directors and shall have all of his powers, rights and authorities under these Articles and by law.

29.3 The Chairman of the Board of Directors shall have all of the powers, rights and authorities granted to him under these Articles or by law. Without prejudice to the generality of the aforesaid, the Chairman of the Board of Directors shall have all power and authority necessary in order to carry out his functions and to exercise his rights and authorities in an efficient manner, including the authority to act in the name of the Company and on its behalf in the matters referred to above and to give directions to the Managing Director of the Company and to employees and consultants of the Company for this purpose.

29.4 If both the Chairman of the Board of Directors and the Deputy Chairman are absent 15 minutes after the beginning of a meeting of the Board of Directors, or they do not wish to act as Chairman, or no Chairman of the Board of Directors has been appointed for the Company, the Board of Directors shall appoint one of its members (including an Alternate Director or Corporate Representative) to conduct the meeting and to sign the minutes of the meeting, provided that the said Chairman of the meeting shall not have an additional or casting vote in any vote of the Board of Directors.

30. Convening and Conduct of Meetings of the Board of Directors

30.1 The Board of Directors shall convene as often as the needs of the Company require.

30.2 The Board of Directors shall be convened as follows:

(a) In accordance with a decision of the Chairman of the Board of Directors;

(b) At the request of two Directors;

(c) In any other case in which there is an obligation by any relevant law or regulation to convene a meeting of the Board of Directors.

30.3 If a meeting of the Board of Directors is convened by the Chairman of the Board of Directors or by a majority of the members of the Board of Directors, the meeting shall be convened no earlier than three (3) business days following delivery of notice of the meeting to all of the members of the Board of Directors, unless the Chairman of the Board of Directors or a majority of the members of the Board of Directors determine that because of the urgent nature of any matter on the agenda, the

meeting must be convened within a shorter period of time. In such a case, the meeting shall be convened in the manner which will allow the participation of the maximum number of members of the Board of Directors in the meeting. If a meeting is demanded other than by the Chairman of the Board of Directors or by a majority of the members of the Board of Directors, the meeting shall be convened at such time as the persons authorised to convene the meeting shall determine, in a notice which shall be delivered by them to the members of the Board of Directors, but in any event no earlier than three business days after the date of delivery of the notice

30.4 Subject to the provisions of any law, the agenda for a meeting of the Board of Directors shall be fixed by the persons authorised to convene that meeting. At a meeting of the Board of Directors, only those matters specified in the notice convening the meeting shall be discussed, unless all of the members of the Board of Directors agree to discuss additional matters.

30.5 Meetings of the Board of Directors shall take place at the Offices of the Company, other than in the following circumstances:

(a) If the Company has a Chairman of the Board of Directors, the Chairman of the Board of Directors may decide that a meeting be convened in some other place in Israel.

(b) The Board of Directors may decide to convene a meeting or meetings of the Board of Directors in some other place in Israel and this decision shall prevail over any contrary decision of the Chairman of the Board of Directors (if any).

(c) The Board of Directors may, by unanimous agreement, in advance or after the fact, decide to convene a meeting or meetings of the Board of Directors at some place outside Israel.

30.6 The agenda of meetings of the Board of Directors shall be fixed by the Chairman of the Board of Directors and shall include:

(a) matters determined by the Chairman of the Board of Directors;

(b) matters specified by the person at whose request the meeting has been convened;

(c) any matter which a Director or the Managing Director of the Company has requested the Chairman to include on the agenda a reasonable time prior to the convening of the meeting of the Board of Directors.

30.7 The Board of Directors may hold meetings using any means of communication, provided that all of Directors participating can hear one another at the same time, as well as in any other manner permitted by law.

30.8 A quorum for a meeting of the Board of Directors shall be a majority of the members of the Board of Directors present at the start of the meeting.

30.9 The Board of Directors may make a decision without actually convening, provided that all of the Directors entitled to participate in the discussion and vote on the matter brought for decision agree thereto.

30.10 The Chairman of the Board of Directors or his Deputy or the person appointed by the Board of Directors or any person authorised by them shall record minutes of the decisions taken without the convening of the Board of Directors, as mentioned above. The minutes shall be signed by the Chairman of the Board of Directors, or the Chairman of the meeting, as the case may be.

30.11 At a vote of the Board of Directors, each Director shall have one vote.

30.12 Decisions of the Board of Directors shall be carried by a simple majority of the Directors voting on any matter on the agenda.

30.13 Any action taken by or in accordance with a decision of the Board of Directors or by or in accordance with a decision of a Committee of the Board of Directors or by a Director acting in his capacity as Director shall be valid and effective even if it is subsequently discovered that there was a defect in the appointment of the Directors or the election of the Directors or if all or one of them was disqualified, in each case as if each of the Directors had been lawfully elected and as if he was fully qualified to act as Director, Alternate Director, Corporate Representative or member of the said Committee, as the case may be.

31. Notice of Meetings of the Board of Directors

31.1 A notice of a meeting of the Board of Directors that shall be convened by the Chairman of the Board of Directors, or by a majority of the members of the Board of Directors, may be delivered verbally, by telephone, in writing or by any other means of communication.

31.2 Notice of a meeting of the Board of Directors shall be delivered to each Director. If a Director has appointed an Alternate for himself, notice shall be provided both to the Director and to the Alternate. Notice to a Director which is a corporation shall be delivered to the corporation and to the Corporate Representative.

31.3 The details for a Director appearing in the Register of Directors which the Company maintains or which have been notified to the Company in writing together with a request that these details be used for the purposes of delivery of notices shall be the address and other details of the Director for the purposes of delivery of notices to him.

31.4 A notice convening a meeting of the Board of Directors shall include reasonable particulars of all of the matters on the agenda, as well as the place and time fixed for the meeting.

31.5 All of the Directors may agree to waive prior notice of a meeting of the Board of Directors and the agenda at that meeting.

32. Authority of the Board of Directors

32.1 The Board of Directors shall set the policy guidelines for the Company and shall supervise the performance and activities of the Managing Director (if one has been appointed). The Board of Directors shall have the powers and authorities necessary, in the opinion of the Board of Directors, in order to carry out its duties fully and efficiently.

32.2 Without prejudice to the generality of the aforesaid, the Board of Directors shall be entitled to use all of its authorities and powers and to carry out any of the actions vested in it by law or by these Articles.

32.3 The Board of Directors may exercise any authority of the Company which has not been delegated by these Articles or by law to the Managing Director or to the General Meeting, and such authority shall be deemed to have been delegated to the Board of Directors by these Articles.

32.4 The power of the Board of Directors shall be subject to the provisions of any law, and to any Article that shall be adopted by the Company in General Meeting, provided that no such Article shall invalidate any action taken prior thereto by the Board of Directors or pursuant to a decision thereof which would have been legally valid but for the adoption of the said Article.

32.5 The General Meeting may assume the authority vested in the Board of Directors (including the authorities vested in the Board of Directors in the absence of a Managing Director) for a specific matter or for a specific period of time.

32.6 For the purpose of exercising the general authorities vested in the Board of Directors and without limiting or restricting in any way whatsoever the said authorities or any of them, it is hereby expressly stated that the Board of Directors shall have the following authorities:

(a) From time to time to appoint one or more persons (whether or not that person is a member of the Board of Directors) as Managing Director or other Officer of the Company, either for a fixed period of time or for an unlimited period of time, and from time to time (bearing in mind the terms of any contract between the Company and such person or persons) to dismiss him or them from office and appoint another person or persons in his or their place.

(b) Subject to any rule of law, to fix the remuneration of the Managing Director or other Officer from time to time (bearing in mind the terms of any contract between the Company and such person). Such remuneration can be in the form of a fixed salary, payment based on the profits or turnover of the Company or of any other company in which the Company is interested, or by way of participation in such profits, or by way of receipt of securities of the Company, or in one or more of these ways, or in any other manner which the Board of Directors sees fit.

(c) To determine the remuneration of the auditor of the Company ("**Auditor**") in respect of the audit.

32.7 For the purpose of setting the policy guidelines for the Company and supervising its activities, any Director may examine the documents and records of the Company and receive copies thereof, examine the assets of the Company and receive professional advice at the expense of the Company if the Board of Directors or the court approves the covering of this expense.

32.8 The Board of Directors may from time to time, at its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

32.9 The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall deem fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time think fit.

33. Committees of the Board of Directors

33.1 The Board of Directors may from time to time establish Committees, appoint the members thereof from among the Directors and determine, subject to the provisions of any law, those authorities of the Board of Directors that shall be delegated to the Committees of the Board of Directors. The Board of Directors may from time to time cancel any delegation of authority as aforesaid, in whole or in part, and cancel any of the Committees of the Board of Directors.

332 Each Committee of the Board of Directors must, in exercising its authority, comply with the directions of the Board of Directors.

33.3 Unless the Board of Directors has determined otherwise, meetings, decisions and activities of the Committees of the Board of Directors shall be conducted and convened in accordance with the provisions of these Articles which relate to the convening and conduct of meetings of the Board of Directors, the manner of adopting resolutions and the methods of operation of the Board of Directors, mutatis mutandis.

33.4 Any decision adopted or action taken by any Committee of the Board of Directors shall be equivalent to a decision adopted or action taken by the Board of Directors itself.

PART F: THE MANAGING DIRECTOR AND OFFICERS

34 The Managing Director

34.1 The Board of Directors of the Company must appoint one or more Managing Directors for the Company. The Managing Director who is appointed shall have all of the authorities vested in the Managing Director under these Articles.

34.2 The Managing Director is responsible for the day-to-day management of the affairs of the Company within the framework of the policies set down by the Board of Directors and subject to their directions.

34.3 The Managing Director shall have full managerial and operational authority to carry out all of the activities which the Company may carry on by law and under these Articles and which have not been vested by law or by these Articles of Association in any other organ of the Company. The Managing Director shall be subject to the supervision of the Board of Directors.

34.4 The Managing Director shall be entitled to enter into transactions in the name of the Company other than Extraordinary Transactions. Any Extraordinary Transaction to which the Company is a party is subject to any approval necessary by law for the purpose of giving effect to that transaction, and in any event is subject to the approval of the Board of Directors. Such transaction shall not be valid unless approved in accordance with this Article.

34.5 The Managing Director may, with the approval of the Board of Directors, delegate his authority to another person who is subordinate to him.

34.6 The Board of Directors may decide to transfer the authority vested in the Managing Director to the Board of Directors, in a specific instance or for a specific period of time.

34.7 The Board of Directors may direct the Managing Director how to act in a specific matter. If the Managing Director does not comply with the direction, the Board of Directors may exercise the authority necessary to carry out the direction in his place.

34.8 The Board of Directors may exercise the authorities of the Managing Director if the Managing Director is incapable of performing them.

34.9 The General Meeting may assume for itself the authorities vested in the Managing Director or transfer these authorities to the Board of Directors, for a specific matter or for a specific period of time.

35. Secretary

The Board of Directors may appoint a Secretary for the Company and determine his duties and authorities. The Secretary, if appointed, shall be responsible to the Board of Directors and shall report to it.

36. Personal Interest in Transactions of the Company

Any transaction which is not an Extraordinary Transaction and which is (i) a transaction with an Officer or (ii) a transaction of the Company with another person in which an Officer has a personal interest shall be subject to the approvals that are required under the Companies Law.

37. Insurance, Release and Indemnification of Officers

37.1 The Company may, from time to time and subject to any provision of law, enter into an agreement to insure against any liability on the part of an Officer in whole or in part, that may be imposed upon him as a result of an action carried out while an Officer in each of the following cases:

(a) breach of duty of care towards the Company or towards another person;

(b) breach of fiduciary duty towards the Company, provided that the Officer acted in good faith and had reasonable grounds to assume that the action would not harm the interests of the Company;

(c) a monetary liability imposed upon him in favour of a third party.

37.2 Subject to the provisions of any law, the Company may indemnify an Officer in respect of a liability or expense which is imposed upon him as a result of an action taken in his capacity as an Officer of the Company:

(a) Monetary liability imposed on him in favour of a third party by a judgment, including a settlement or a decision of an arbitrator which is given the force of a judgment by court order;

(b) Reasonable litigation expenses, including legal fees, which the Officer has expended or is obliged to pay by the court, in proceedings commenced against him by the Company or in its name or by any other person, or pursuant to criminal charges of which he is acquitted or criminal charges pursuant to which he is convicted of an offence which does not require proof of criminal intent;

37.3 The Company may, following receipt of shareholders consent, undertake in advance to indemnify an Officer of the Company, provided that the undertaking is limited to the kinds of events which in the opinion of the Board of Directors can be anticipated at the time of giving the indemnification undertaking, and for an amount which the Board of Directors has determined is a reasonable amount in the circumstances;

Without the prejudice to the provisions of the preceding paragraph, the Company may indemnify an Officer after the occurrence of the event which is the subject of the indemnity.

37.4 The Company may, following receipt of shareholders consent, release an Officer in advance from liability, in whole or in part, for damage suffered as a result of breach of duty of care of the Officer towards the Company.

37.5 The above-mentioned provisions are not intended and shall not in any way limit the Company in its ability to enter into any contract of insurance or to grant a release from liability or an indemnity:

(a) in connection with a person who is not an Officer, including employees, contractors or consultants of the Company who are not Officers;

(b) in connection with Officers – to the extent that the insurance, release or indemnity is not prohibited by law.

37.6 The provisions of this Article shall apply to a Corporate Representative and an Alternate Director.

38. Signature in the Name of the Company

The signature rights in the name of the Company shall be determined by the Board of Directors of the Company, generally, for a class of matters or for a specific matter. Any signature in the name of the Company shall be accompanied by the name of the Company. The authorised signatories do not necessarily have to be Directors of the Company.

PART G: MINUTES, REGISTERS AND BOOKS OF ACCOUNTS

39. Minutes

39.1 The Board of Directors shall ensure that records of the following matters are duly maintained in books that shall be prepared for this purpose:

(a) The names of members of the Board of Directors who are present at any meeting of the Board of Directors and at any meeting of a Committee of the Board of Directors (including any decision of the Board of Directors or of its Committees which is adopted without actually convening).

(b) The names of the shareholders participating in any General Meeting.

(c) The instructions given by the Board of Directors to the Committees of the Board of Directors.

(d) The proceedings at General Meetings, meetings of the Board of Directors, and meetings of Committees of the Board of Directors, including decisions adopted without actually convening these meetings.

39.2 Any minute of a meeting of the Board of Directors or of any Committee of the Board of Directors or of the General Meeting of the Company which purports to be signed by the chairman of the meeting or by the chairman of the next following meeting shall be prima facie evidence of the matters stated therein.

39.3 The Company shall maintain the records referred to in this Part G as required by law.

39.4 The minute book of General Meetings shall be open to inspection by the shareholders of the Company at all reasonable times, and a copy thereof shall be sent to any shareholder who requests this, subject to the procedures that the Board of Directors may specify from time to time regarding the times at which the minute book is open for inspection (including periods during which the minute book will be closed), regarding the authentication of the identity of the shareholder, and regarding any fee to be paid for inspection or delivery as aforesaid.

40. Books and Registers of the Company

40.1 The Managing Director shall comply with all of the provisions of the Companies Law in connection with registering charges and in connection with maintaining the Register of Directors, the Shareholders Register, any additional Share Register, a Register of Substantial Shareholders and a Register of Charges.

40.2 Each book, register and registration that the Company must maintain in accordance with the provisions of the Companies Law or these Articles shall be made in regular books or by electronic means, as the Managing Director shall determine, provided that the persons entitled to inspect them are able to receive copies of the documents.

40.3 The Company may, bearing in mind the provisions of the Companies Law and any other law, maintain in any other State a register or registers of shareholders who live in that other State, and exercise all of the authorities mentioned in the Companies Law in connection with these registers, subject to the authority of the Minister of Justice to enact rules in connection with the administration of theregister.

40.4 If the Company elects to maintain an additional Share Register outside Israel, it must indicate in the Register the number of shares that are registered in the additional Share Register, and the numbers of those shares if the shares are numbered.

40.5 The Company may close the Register and any other register which the Company maintains or shall maintain (whether by law, by agreement or at the election of the Company) in connection with any security of the Company, as the case may be, for such period of time as the Board of Directors shall see fit, but no longer than for 30 Business Days in any year.

40.6 Subject to any provisions of law, the Company may determine a record date for the purposes of entitlement to receive invitations to General Meetings, and to participate and vote thereat, provided that this date shall not be more than 21 Business Days before the date set for the General Meeting. In addition, subject to any provisions of law, the Company may determine a record date for the purpose of entitlement to dividends and with respect to share and right offerings,provided that this date shall not be more than 21 Business Days before the date set for the General Meeting.

40.7 The Company may destroy any request for entering any change in the Register six years after the date of the change in the Register, and there shall be a prima facie assumption that all requests for changes in the Register were valid and that any action taken by virtue or as a result thereof was lawfully taken.

41 Information and Documents

41.1 All information and documents belonging to the Company shall be maintained at the Office or at such other place or places as the Board of Directors shall see fit, and shall be open for the inspection of the Directors, subject to the directions and internal procedures which the Chairman of the Board of Directors shall lay down in connection with the inspection of documents.

41.2 A shareholder shall not be entitled to receive any information or documents of the Company other than the documents and information which shareholders are lawfully entitled to receive, unless the Board of Directors or the General Meeting decides otherwise.

41.3 The Company shall maintain accounts and prepare financial statements as required by law. The financial statements shall be approved by the Board of Directors and signed in its name.

41.4 Copies of the financial statements shall be sent to all persons entitled to receive them no later than fourteen (14) Business Days before the date for the Annual Meeting.

41.5 Subject to any provision of law, the Company may determine the manner and form in which documents which shareholders are entitled to inspect are presented to them, and may decide that copies of documents be provided against payment.

PART H: <u>AUDIT</u>

42. Auditor

42.1 At least once in each year, the financial statements of the Company shall be audited by an auditor or auditors who will express their opinion as to the financial statements.

42.2 The Company shall appoint at the Annual Meeting an auditor or auditors to act in this capacity until the following Annual Meeting, but the General Meeting may appoint an auditor to serve in this capacity for a longer period of time, not extending beyond the end of the third Annual Meeting after the appointment..

42.3 Subject to the provisions of the Companies Law, any act of the auditors of the Company shall be valid with regard to any person acting in good faith with the Company, notwithstanding any defect in the appointment or qualification of the auditor.

42.4 The fees of the auditor for the audit and for any additional services of the auditor that are not within the scope of the audit shall be determined by the Board of Directors. The Board of Directors shall report to the annual meeting the fees of the auditor which the Board of Directors shall settle for the audit.

PART I: RESERVES, DISTRIBUTIONS, BONUS SHARES AND REDUCTION OF CAPITAL

43. Reserves

43.1 The Board of Directors may at any time allocate such amounts as it sees fit to a reserve for the distribution of dividends, the distribution of bonus shares, for the acquisition of shares in the Company or for any other purpose as it sees fit. Likewise, the Board of Directors may direct the management of and the uses to which any reserve or part thereof is put, including using of any reserve or part thereof for the business of the Company, without need to maintain such amount separate from the remaining assets of the Company.

43.2 The Board of Directors may transfer from time to time sums which have been set aside as a reserve as aforesaid to the Surplus Account.

43.3 The Board of Directors may from time to time, subject to the provisions of any law and the provisions of these Articles, change the purpose for which any capital reserve has been designated or the manner in which they are managed, to combine or split reserves and to transfer the amount of any capital reserve to the Surplus Account or to any other account in the accounting records of the Company. Notwithstanding the aforesaid, the Board of Directors may not transfer any amount from the share premium account other than to share capital of the Company or for the purposes of a reduction of capital.

44. Distribution of Dividends and Bonus Shares

44.1 Each share, unless otherwise provided in the terms of issue of that share, shall entitle its holder to receive dividends and bonus shares if and when these are distributed, proportionate to the nominal value of shares which are paid up or deemed to be paid up, without taking into account any premium paid in respect thereof.

44.2 A decision regarding a distribution (as defined in the Companies Law) shall be taken by the Board of Directors. However, the Board of Directors may make a distribution conditional upon the approval of the General Meeting by a simple majority or by a greater majority, as the Board of Directors shall see fit.

44.3 Unless the Board of Directors decides otherwise, the Company shall not pay interest on dividends, including dividends which are paid after the date set for payment for whatever reason. The Board of Directors may decide from time to time in its absolute discretion, with regard to the payment of a specific dividend or class of dividends, to pay linkage differentials in respect of dividends paid after the date set for payment, based on a consumer price index or a rate of exchange of any foreign currency.

44.4 A dividend may be paid, in whole or in part, by way of distribution of assets of any kind. A distribution of assets as aforesaid shall be made by transfer, assignment, transfer of title, grant of a contractual or proprietary right or in any other manner as the Board of Directors shall direct.

44.5 If the Board of Directors decides to distribute a dividend, in whole or in part by way of an allotment of shares in the Company to those shareholders entitled to the dividend at a price lower than the nominal value of those shares, the Company shall convert to share capital a portion of its profits in respect of which the dividend has been distributed equal in amount to the difference between the nominal value of the said shares and the price paid therefor.

44.6 The Board of Directors may decide from time to time that all or part of the balance in the Surplus Account, the balance in the share premium account, the balance of any capital reserve that stands in credit or any other reserve included within the equity of the Company shall form part of the share capital of the Company and shall be considered to be payment in full for bonus shares of such class and number as the Board of Directors shall determine (in such amount, being not less than the nominal value of the shares, as the Board of Directors shall direct). The said bonus shares shall be allotted without payment to the shareholders of the Company who would have been entitled to receive the amount converted to share capital for the purpose of distribution of the bonus shares if that amount had been distributed by way of cash dividend and in the same proportion.

44.7 The Board of Directors may from time to time transfer to the holders of securities issued by the Company that are convertible into shares of the Company bonus shares or dividends that the Company shall distribute as if the said securities had been converted into shares prior to the distribution in question, in each case subject to the terms of issue of the said securities.

The Board of Directors may make any arrangements and take any actions necessary for the efficient and speedy implementation of the provisions of this Article, to determine the rights which the holders of convertible securities shall receive and the manner in which they shall receive these rights, and to carry out any adjustment necessary to the rights of the holders of the said securities as a result of any distribution of dividends or bonus shares or rights, and to exercise any authority granted to the Board of Directors in connection with the distribution of a dividend or bonus shares or rights to the shareholders in the Company, mutatis mutandis – all in the absolute discretion of the Board of Directors.

44.8 In order to implement any decision regarding the distribution of a dividend or bonus shares or in connection with the acquisition of securities of the Company, the Board of Directors may:

(a) resolve any difficulty that arises in connection with the aforesaid distribution as it sees fit, and take any steps that it deems appropriate in order to overcome such difficulty;

(b) issue certificates for partial shares or to decide that shares in the Company which entitle the holder thereof to partial shares in an amount lower than the level fixed by the Board of Directors shall not entitle the holder to participate in that distribution, or to sell the partial shares and to pay the net proceeds of sale (after deduction of the expenses of sale and any tax that shall be payable in respect of the sale) to the persons entitled thereto;

(c) sign or appoint a person to sign on behalf of the shareholders on any contract or other document required for the purpose of implementing a distribution, and in particular the Board of Directors shall be entitled to sign or appoint another person who shall be entitled to enter into and sign a written document as required by the Companies Law, and this contract shall bind the Company and the shareholders;

(d) effect any arrangement which is, in the opinion of the Board of Directors, necessary in order to enable or facilitate the distribution or other arrangement.

44.9 The Board of Directors may appoint a trustee or trustees ("the **Trustee**") for shareholders who for a period of time that shall be determined by the Board of Directors have not applied to the Company in order to receive dividends, bonus shares or any other right (together "**the Benefit**") which the Company has issued or distributed to its shareholders in their capacity as such. Any action taken by the Trustee, and any agreement between the Board of Directors and the Trustee shall be valid and shall bind the shareholders in connection with the Benefit to which they are entitled and for which the Trustee has been appointed.

44.10 The Trustee shall be appointed for the purpose of exercising, collecting, receiving or depositing the Benefit, but the Trustee shall not be entitled to transfer the Benefit or part thereof or to grant any right in the Benefit or to make any use thereof and the Trustee shall not be entitled to vote in respect of any securities of the Company which are included in the Benefits.

44.11 The Trustee shall transfer the Benefit, including any income arising thereon, less the Trustee's fee as settled by the Board of Directors, to the shareholders entitled to the Benefit as soon as possible after he receives the first written demand from the shareholders, subject to authentication of the identity of any shareholder and details of the Benefit to which he is entitled, in accordance with procedures that the Board of Directors shall lay down.

44.12 The Board of Directors may determine from time to time the manner of payment of the dividends or the distribution of bonus shares and the arrangements therefore for each class of shareholder. Without prejudice to the generality of the aforesaid, the Board of Directors may pay all dividends or monies due in respect of shares by sending cheques in the mail, via telegraphic transfer or secure electronic media, and if the Benefit is, in whole or in part, an asset or a right, by sending by mail any document confirming or creating the said right, to the address of the shareholder as appearing in the Register. Any cheque or document sent as aforesaid shall be dispatched at the risk of the shareholder.

44.13 The Board of Directors may decide that bonus shares shall be of the same class of shares as those shares which entitle the holders thereof to participate in the distribution of bonus shares, or that all bonus shares shall be of a single class which shall be distributed to all persons entitled thereto without taking into account the class of shares which they hold, or that bonus shares be a combination of classes of shares.

44.14 The transferee of any shares shall not be entitled to any dividend or any other distribution which has been declared in respect of those shares after the date of transfer but before registration of the transfer in the Register, and in the event of the transfer of shares which is subject to the approval of the Board of Directors, before the date of said approval.

44.15 If the payment of the dividend is not demanded within twelve (12) years from the date of the decision to distribute that dividend, the person entitled thereto shall be deemed to have waived the dividend, and ownership thereof shall return to the Company.

44.16 The Board of Directors may deduct from any dividend, distribution or other monies which are to be paid to a shareholder (including to a person who is one of the joint holders of a share) any amounts due from such a person to the Company (either by that person alone jointly with another person) in respect any indebtedness which the shareholder owes to the Company in his capacity as shareholder.

44.17 If there are a number of persons registered as joint holder of a share, each one may give a valid receipt to the Company for any dividend or bonus share which is paid or transferred in respect of that share or in respect of any consideration which the Company shall pay for acquiring that share and for any other monies or Benefit given in respect of that share or as a result thereof.

45 The Distribution that does not Satisfy the Profit Test

The Board of Directors may from time to time and subject to the approvals required by law make a distribution which does not satisfy the Profit Test (as defined in the Companies Law) provided that it is satisfied that there is no reasonable concern that the distribution will result in the Company being unable to pay its existing and foreseeable debts as they fall due.

46 Acquisition of Securities of the Company by the Company Itself

Decisions regarding the acquisition of the securities which have been issued by the Company and the manner in which these securities shall be dealt with by the Company shall rest with the Board of Directors.

PART J: LIQUIDATION, MERGER AND REORGANISATION

47. Liquidation

47.1 Subject to the provisions of Section 319 (1) of the Companies Ordinance, the General Meeting may adopt a resolution for the winding up of the Company, provided that the resolution is passed by the majority required by law, and in the absence of any legal requirement for a specific majority, by the majority required in accordance with these Articles.

47.2 If the Company is wound up and the assets available for distribution among the shareholders are not sufficient for payment in full of the paid up share capital of the Company, the assets shall be distributed, as far as possible, so that the shareholders will bear the losses proportionately to the share capital paid or that should have been paid by the commencement of the winding up, and the number of shares held by the shareholders.

47.3 If the Company is wound up and the assets available for distribution among the shareholders are more than sufficient for payment in full of the paid up share capital at the time of commencement of the winding up, the surplus shall be distributed among the shareholders proportionately to the share capital paid or that should have been paid by the commencement of the winding up, and the number of shares held by the shareholders. This Article shall not affect the rights of holders of any shares issued with special rights

47.4 For the purposes of the distribution of the assets of the Company at the time of a liquidation, no account shall be taken of any payments that have been made by way of share premium.

47.5 If the Company is wound up, by way of voluntary liquidation or otherwise, the liquidators may, if the approval of the General Meeting is given with the majority required by law, and in the absence of any legal requirement for a specific majority by the majority required by these Articles, distribute any portion of the assets of the Company among the shareholders in specie, and the liquidators may, subject to receiving approval as aforesaid, deposit any part of the assets of the Company with trustees upon trust for the benefit of the shareholders. A General Meeting that approves any distribution as aforesaid may also approve a distribution in a manner other than in accordance with the legal rights of the shareholders and may grant special rights to any class of shareholders, provided that if a resolution is adopted authorising any distribution other than in accordance with the legal rights of the shareholders, a shareholder who has been harmed thereby shall have the right to object, in the same manner as if the resolution had been adopted by the majority required in Section 334 of the Companies Ordinance.

48 Reorganization

In the event of the sale of the assets of the Company, the Directors (or the liquidators in the event of the liquidation, if they have been so authorised by a resolution passed by the General Meeting with the majority required by law) may receive fully paid or partly paid shares, debentures or any other security interests of another company, Israeli or foreign, whether existing or being established for the purpose of acquiring all or part of the assets of the Company. The Board of Directors or the liquidators may distribute in specie such shares or debentures or security interests or any other property of the Company among the shareholders without realizing the same or may deposit them on trust on behalf of the shareholders. Any decision of the General Meeting as aforesaid may direct the distribution of cash, shares or other security interests, rights or property in a manner other than in accordance with the legal rights of the shareholders (or participants in the Company) and may determine the value of any asset of the Company at such price and in such manner as the General

Meeting shall direct. All of the shareholders (or participants) shall accept the valuation or distribution approved as aforesaid and shall waive their existing rights other than in the event that the Company is about to enter into liquidation or is in the process of being wound up, and the legal rights (if any) under the Companies Ordinance or the Companies Law, as the case may be, cannot be varied or cancelled by the provisions of this Article.

49. Presumption of Delivery of Notices

49.1 Unless otherwise expressly stated in these Articles, notices to be served under these Articles or in connection therewith shall be in writing and signed by the person serving the notice.

49.2 (a) A notice shall be sent by the Company by mail to the addressee at the address registered with the Company, and shall be deemed to have been received by an addressee, with an address in Israel, unless proven otherwise, within 72 hours of delivery of the notice by the Company to the mail, and within seven (7) days to an address outside of Israel.

(b) A notice that is hand-delivered by the Company to an addressee at the address registered with the Company shall be deemed to have been received at the time of delivery to the addressee or at the time of deposit in the post box of the addressee.

(c) A notice that is sent by the Company by facsimile, by electronic mail, via an internet site or other similar electronic means shall be deemed to have been received by shareholders at the time of transmission unless the notice is transmitted on a day which is not a Business Day in which case it shall be deemed to have been received on the next following Business Day.

49.3 Confirmation of an Officer of the Company regarding the date and manner of delivery of a notice on behalf of the Company in accordance with or relating to these Articles shall be prima facie evidence of the facts stated therein.