

# BioTech Capital Limited

1st Annual Report 2001

Year ended 30 June 2001

BioTech Capital Ltd ABN 45 091 979 172

Innovative Investments

## Office Addresses

Level 41, Aurora Place  
88 Phillip Street  
Sydney NSW 2000  
Tel: 02 9994 7000  
Fax: 02 9994 7777

Level 41, 101 Collins Street  
Melbourne VIC 3000  
Tel: 03 9654 7744  
Fax: 03 9654 1212

Level 34, Central Plaza One  
345 Queen Street  
Brisbane QLD 4000  
Tel: 07 3218 8000  
Fax: 07 3220 3132

Level 2, 141 St Georges Terrace  
Perth WA 6000  
Tel: 08 9480 2800  
Fax: 08 9322 9289

Level 9, T & G Building  
82 King William Street  
Adelaide SA 5000  
Tel: 08 8211 7777  
Fax: 08 8212 1661

Level 15, ASB Bank Centre  
Cnr Albert and Wellesley Streets  
Auckland New Zealand  
Tel: 649 309 0474  
Fax: 649 355 7359

No. 1 Cornhill  
London EC3V 3ND  
United Kingdom  
Tel: 44 (0)207 743 6530  
Fax: 44 (0)207 743 6531

**Investor Enquiries:** 13 35 66

**Website:** [www.biotechcapital.com.au](http://www.biotechcapital.com.au)

Managed by:



A member of the Challenger International Group

Managed by:



A member of the Challenger International Group

Innovative Investments



## Contents

<b>Chairman's Report</b>	<b>2</b>
<b>Overview</b>	<b>3</b>
Investment Objectives	3
Earnings Background	3
Net Tangible Asset Backing	3
Dividends	3
Website	3
Annual General Meeting	3
<b>Managing Director's Report</b>	<b>4</b>
Valuation Policy	5
Key Investment Considerations	5
Due Diligence Process	6
Portfolio Analysis	6
Investments	6
Deal-flow analysis	11
Outlook	12
<b>Financials</b>	<b>13</b>

# Chairman's Report

It is pleasing to be able to deliver this maiden annual report for BioTech Capital Limited. As one of the largest dedicated biotechnology funds in Australia, BioTech Capital has access to the vast majority of potential investments available in this country. This should provide comfort to shareholders that they are gaining access to some of the most attractive investment opportunities in the sector in a way not previously available to the average investor.

Whilst it is clear that there is the potential for strong capital growth from our investments, investors should understand the risks involved. Private equity investments by their nature are high risk. Investments are made in generally young, fast growing companies operating in fast moving markets. There can be no guarantee that these companies will survive, let alone be successful.

Our investment philosophy revolves around the concept of diversification to help reduce the risk of being over exposed to any one company or sector. Our aim is to build a portfolio of 10 to 20 high quality investments across a range of areas including cutting edge technologies associated with proteomics and genomics, as well as more traditional medical device companies, as well as a range of other sectors. We do not invest in "start-up" operations where we believe the potential for loss is too great. We prefer to seek companies that have passed through this high-risk phase and are embarking on a period of growth.

Against a background of poor market sentiment in general, and more recently to high technology companies in particular, the share price performance of BioTech Capital since listing has been disappointing. The share price of \$0.30 compares poorly to the underlying Net Tangible Asset backing (NTA) per share of \$0.487 although this disparity should provide comfort to long term investors that there is real value apparent.

The life-sciences industry is without doubt a global industry with very strong growth prospects and the potential for significant investment returns for investors. We believe we have the combination of structure, approach, people and alliances to deliver attractive returns to those shareholders prepared to take a medium to long term view.

I thank you for your support as shareholders and I look forward to welcoming you to our first Annual General Meeting on Thursday 29 November 2001 at 2pm in Sydney.



WEB Ireland  
Chairman  
BioTech Capital Limited

# Overview

## Investment Objectives

BioTech Capital Limited's objective is to provide shareholders with a high level of capital growth over the medium to long term through exposure to unlisted opportunities in the Australian biotechnology/life-sciences area.

## Earnings Background

Net profit after tax for the period ending 30 June 2001 totalled \$0.645m and comprised interest income generated on cash balances.

## Net Tangible Asset Backing

The audited Net Tangible Asset backing per share as at 30 June 2001 equated to 48.73 cents. The breakdown of this NTA follows:

Investment	\$ investment	% of total funds	Equivalent cents per share
Proteome Systems	\$3,000,000	7.69	3.75
Pacific Knowledge Systems	\$2,000,000	5.13	2.50
Alchemia	\$2,000,000	5.13	2.50
X-Ray Technologies	\$4,000,000	10.26	5.00
Net Cash (inc. dividend provision)	\$27,995,000	71.79	34.98
<b>Total</b>	<b>\$38,995,000</b>	<b>100.00</b>	<b>48.73</b>

## Dividends

A dividend of 0.80 cents per share has been declared. This represents a payout to shareholders of interest earned for the period. The bulk of returns to shareholders in the future will be derived from realised gains from underlying investments. There can be no guarantee on the timing of the exit from our investments and so no dividends can be forecast for the next 12 months.

## Website

We would encourage all shareholders to register their details on our website ([www.biotechcapital.com.au](http://www.biotechcapital.com.au)) to ensure they are kept informed of the latest releases made to the Australian Stock Exchange (ASX).

## Annual General Meeting

The maiden Annual General Meeting of shareholders will be held on Thursday 29 November 2001 at the offices of Challenger International, Level 41 Aurora Place, 88 Phillip Street, Sydney commencing at 2pm.

# Managing Director's Report

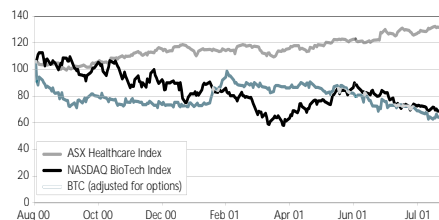
BioTech Capital Limited ("BioTech Capital") listed on 29 August 2000 at an issue price of \$0.50 with one free option attached to every two ordinary shares. A total of \$40,000,000 in capital was raised from over 6,500 shareholders making BioTech Capital one of the largest funds in Australia dedicated to investments in the biotechnology/life-sciences area.

Since listing we have reviewed 102 potential investments. A total of four investments have been concluded at the time of this report – Proteome Systems, Pacific Knowledge Systems, Alchemia and X-Ray Technologies (details follow). We expect to build a portfolio of 10 to 20 investments over the medium term with a spread of companies providing risk diversification as well as a steady stream of "liquidity events" (ie. public listing / trade sale providing BioTech Capital with an opportunity to realise a capital gain from which to pay dividends).

We have been pleased with the strong level of deal-flow since listing. The low conversion rate (ie. four investments from 102 opportunities reviewed) reflects our disciplined approach in aiming to ensure only high quality opportunities with potential for very attractive returns enter our portfolio. We do not expect to be fully invested for at least a further 12 months.

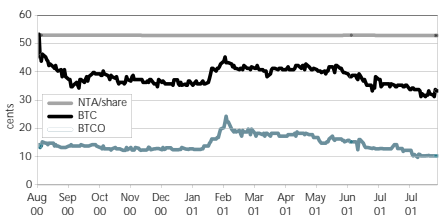
The share price performance since listing is disappointing and reflects a combination of poor market sentiment as well as the notion of a discount to NTA for companies carrying a large portion of their assets in cash. The relative performance of BioTech Capital compared to the NASDAQ Biotechnology Index is largely in line suggesting poor market sentiment is a major driver of the share price decline.

## Relative Performance Since Listing



We believe our underlying investment portfolio will deliver growth in NTA for shareholders over the medium to long term. Theoretically, the share-price should reflect the underlying NTA and we would expect it to respond accordingly.

## Share Price vs NTA



## Valuation Policy

The policy of the board is to carry the investments at cost unless there has been a subsequent arms-length investment by other parties at which time the board has the ability to re-value the position. Any decision to re-value will be based upon the view of a permanent long-term change in value – either up or down.

As a result, our stated NTA will generally not change until there has been a third-party investment in our portfolio companies or a material change. The current NTA of 48.73 cents per share reflects 34.98 cents in cash and 13.75 cents in investments and is after a dividend declared of 0.80 cents per share.

Positive news flow from our investments (eg. technical breakthroughs, strategic alliances, product launches etc.) are not enough for the Board to adjust the carrying value. This reflects a very conservative approach. However, shareholders should appreciate that the underlying value of the investments may be rising even though the stated NTA remains constant.

## Key Investment Considerations

When evaluating potential investment opportunities we seek to identify those companies with strengths in each of the following attributes:

- **Intellectual Property** – this refers to the protection of the core technology of the company either through patents, trade

secrets or technical barriers to entry. In general, extensive patent protection is the most preferred option.

---

- **People** – without a high quality management team in place, it is unlikely the full potential of the company's technology will be realised. We do not seek to invest in start-up technologies with no management team in place.

---

  - **Partnerships** – the ability to attract, interact with and retain alliance partners from around the world can often be a very good guide as to the strength of the underlying technology and ability of the management team. These partnerships can form the basis from which to move along the commercialisation path.

---

  - **Shareholders** – the composition of a company's share register is an indicator as to how far the company is along the development curve. The typical funding cycle for a start-up venture involves initial funding from the promoters followed by "friends and family". As the company matures it would seek to attract subsequent capital from "professional investors" including institutions such as BioTech Capital Limited.
- 

Overriding all of these attributes is obviously the size of the target market, strategy of penetrating this market and most importantly the valuations placed on the company.

## Due Diligence Process

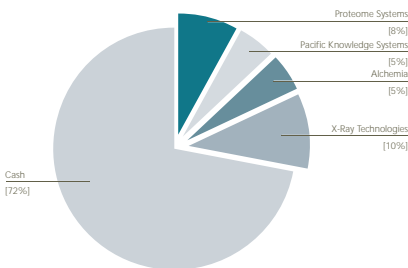
The term “due diligence” refers to the process of systematically reviewing all aspects of a potential investment including background of people, status of intellectual property protection (eg. patents), financial analysis, competitor analysis etc. The aim is to reach the point where as much information as possible has been uncovered prior to making an investment decision.

This process takes time and involves both internal and external parties. Typically, the process runs 6 to 10 weeks before an investment can be concluded. There is no guarantee that what initially appears to be an attractive opportunity ultimately passes due diligence and becomes a member of BioTech Capital’s investment portfolio.

## Portfolio Analysis

The chart below indicates the current portfolio structure of BioTech Capital. Cash represents 72% of the portfolio or the equivalent of 34.98 cents per share.

### BioTech Capital Investments



## Investments

### Proteome Systems Ltd (PSL)

[www.proteomesystems.com](http://www.proteomesystems.com)

Proteome Systems is one of the world’s leading proteomics companies with headquarters in Sydney and a facility in the Boston area in the United States. Under the leadership of its CEO Dr Keith Williams the company has developed an impressive portfolio of technologies and alliances since its founding in 1999.

PSL is structured into three broad divisions:

1. Hardware/tools – develops instruments to facilitate the separation, purification and identification of proteins. The group has recently launched the Xcise™ – an integrated platform that automates a number of previously cumbersome steps involved in protein analysis.

---

2. Software/informatics – develops databases and information management tools to assist researchers in protein analysis

---

3. Discovery – the application of the group’s expertise in protein chemistry to solving “real world” problems in areas such as pain, aging and cancer.

---

The company has a range of alliance partners validating the strength of technology and the management team. These include Shimadzu, MicroFab Technologies, Thermo-Finnigan, Sigma-Aldrich, IBM, GeneBio and several research organisations around the world. These groups are all major industry players in the area of protein analysis and information software. The grouping together of these partners positions PSL as a major player in the field of proteomics.

The launch of the Xcise™ recently has resulted in a significant level of interest from potential users around the world. The company is in the final stages of tendering processes and we would expect initial sales of units to commence this calendar year with strong growth thereafter.

Indicative modelling suggests PSL will be in a position to report strong revenue and cash-flow generation for the period ending June 2002 laying the foundation for a public listing either in Australia or a relevant offshore market (eg. NASDAQ). This will provide BioTech Capital with an opportunity to consider realising part of this investment and returning the proceeds to shareholders.

As the company moves closer towards a public float we would expect increases in valuations which will have a direct positive impact on BioTech Capital's NTA backing per share.

#### **Milestones achieved:**

- Initial funding round
- Awarded R&D START Grant
- US operations established
- Sigma-Aldrich alliance for development of consumables
- Technical milestones announced – rare protein discovery
- Acquisition of Niche Design – brings control over hi-tech manufacturing in-house
- University of Missouri collaboration – cancer discovery program
- Launch of Xcise™
- Strategic partnership with Thermo-Finnigan
- Buck Institute collaboration – proteomics of aging

#### **Milestones to look for:**

- Capital raising at higher valuations
- IT partnership – development of software analysis tools
- First sales of Xcise™ platform

#### **Pacific Knowledge Systems Pty Ltd (PKS)**

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

Pacific Knowledge Systems is a Sydney-based informatics company formed to develop and commercialise artificial intelligence software based on patented RippleDownRules (RDR) technology. RDR is a software platform with multiple potential applications and in that sense is a true platform technology.

PKS has developed an application for the pathology industry (LabWizard™) which offers automated interpretation of pathology results, which in turn adds value to a laboratory report thereby enhancing the quality of the medical advice provided to the general practitioner.

LabWizard was released in January 2000 and is currently used in several pathology laboratories throughout Australia. The software is not designed to replace a pathologist or GP but seeks to automate and prioritise information and protocols involved in the intermediate processes. PKS has managed to reduce the complexity of maintaining the database to the point where end users (eg. pathologists) are able to modify the system, add on extra variables etc without the need for IT support.

LabWizard encourages more appropriate use of pathology testing with benefits including:

- Immediate prompting to initiate or cancel further tests after receiving an initial test result

---

- Comparison of results with normal ranges taking into account factors such as age and other existing illnesses

---

- Comparisons against previous test results

---

- Initial recommendations for diagnosis, treatment or follow-up testing

---

- Remove the need for pathologists to review every report

---

Other applications of the core underlying technology includes the areas of proteomics and genomics where analysis of complex patterns with numerous underlying variables is required. Initial discussions are underway with groups in these fields with a view to developing new specialist applications.

PKS is expected to embark on a further capital raising in the medium term to facilitate expansion into new markets. A public listing is not anticipated in the medium term.

#### Milestones achieved:

- Successful funding round
- New laboratories purchase LabWizard™
- Appointment of Mr James Dominguez as Chairman
- Expansion of management team
- Discussions with alliance partners in North America

#### Milestones to look for:

- Establishment of strategic partnerships with offshore groups
- Establishment of Scientific Advisory Committee
- Expansion of RDR and development of technology into non-pathology areas (eg. proteomics, genomics)

### **Alchemia Pty Ltd (Alchemia)**

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

Alchemia is a carbohydrate chemistry company that has developed novel methods to synthesise carbohydrate compounds and drugs using chemical synthesis techniques, in place of more demanding and expensive enzymatic methods or natural sourcing which is not always possible. Alchemia was founded

in 1995 by scientists from the University of Queensland and the University of London. The firm is headquartered in Brisbane and has a US presence in the San Francisco Bay area.

Alchemia's proprietary technology offers several key advantages including increased purity and the capacity for introducing modifications and "fine tuning" of carbohydrate compounds. Importantly, the carbohydrate synthesis technology invented by Alchemia is cost-effective in what is generally considered a highly skilled and labour intensive manufacturing process.

Alchemia possesses a genuine platform technology in the sense that the underlying expertise can be applied in many different ways including custom synthesis of specific molecules for customers and the generation of a library of potentially 1000s of different molecules from which target bio-active compounds can be identified.

Late last year Alchemia signed an exclusive research and manufacturing agreement with one of the largest contract chemical manufacturers in the world – Dow Chemical Inc., following 12 months of feasibility and scale-up studies. The alliance involves Dow using Alchemia's cutting-edge technology in the large scale synthesis of carbohydrate compounds. Alchemia and Dow will share in the profits and the companies will work together to identify other product applications of the technology.

Alchemia intends going public in the medium term with the current intention to list on NASDAQ. To maximise the value of the firm at that time a number of key steps have been identified. Following on from the establishment of a US office the company recently appointed Mr Paul Goddard as Chairman. Mr Goddard is a leading industry figure in the US being the former President and Chief Executive Officer of Elan Pharmaceuticals. He has a successful track record of commercialising technology and adding value for shareholders.

Alchemia is also in discussions with most of the major pharmaceutical groups in the world with respect to several lead compounds. The signing of agreements relating to these compounds will be an important milestone to achieve further validating the world-class nature of the technology.

#### **Milestones achieved:**

- Successful funding round
- Dow Chemical alliance
- US operations established
- Paul Goddard appointed Chairman
- Awarded R&D START Grant

#### **Milestones to look for:**

- Expansion of US activities
- Establishment of partnerships for developing lead compounds

## **X-Ray Technologies Pty Ltd (XRT)**

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

X-Ray Technologies is an imaging company with its foundation at the CSIRO Division of Materials Science and Technology in Melbourne. XRT has made a quantum leap in x-ray technology that significantly extends the use of x-ray imaging in medical diagnosis as well as in a broad range of other industrial applications.

XRT has developed, and is the world leader in, the practical application of what is termed phase contrast imaging (PCI). The original research describing the technology was published as a cover story in the prestigious *Nature* journal in 1996. Since that time XRT has developed two product lines with licence agreements and initial sales of advanced prototypes expected in the short to medium term.

The technology has multiple applications in a diverse group of sectors. It is expected to contribute to major advances in medical diagnosis through the production of very high resolution images and detail of tissues to diagnose a variety of disease conditions. The most promising initial application could be in the human mammography market following a technical breakthrough which allows for very high resolution images of breast tissue enabling tumours and pre-cancerous tissue to be detected much earlier than existing techniques.

As the technology is conducive to being "bolted-on" to existing equipment the purchasing decision is not to discard existing

x-ray and related equipment but merely to purchase an add-on that significantly enhances functionality.

Other applications include quality control of computer chip manufacturing, inspection of aerospace componentry as well as quality control and product development applications in the packaging industry.

The increased sensitivity of PCI allows sharp images to be made of objects previously not suitable for x-ray, with relatively low cost equipment. The image resolution has been compared to that obtained by US\$250 million synchrotron machines. It allows soft tissue contrast that standard x-ray does not and its resolution is over 1000 times greater than for MRI machines or CT scanners that are currently in use.

Importantly, the technology is protected by a broad based and very secure patent portfolio.

XRT is expected to move towards a public listing in the medium to long term with a subsequent capital raising occurring in the medium term to help fund the firm's growth.

### **Milestones achieved:**

- Successful funding round
- Technical breakthrough in exposure times – opens up human mammography market
- Advanced discussions with numerous industry players

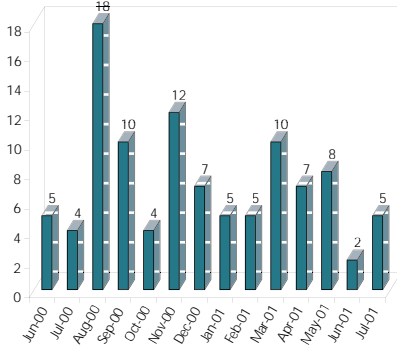
### **Milestones to look for:**

- Establishment of strategic partnerships

## Deal-flow analysis

The following charts provide detailed information on the nature of our deal flow. This demonstrates our truly national focus and positioning.

### Monthly Deal Flow Analysis

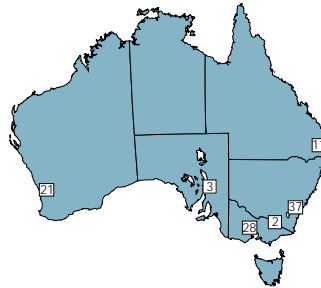


Deal flow has been consistent and averages just over seven deals per month or just under two per week.

Sector	No.	% of total
Medical Device	31	30.40
Therapeutic	14	13.70
Discovery	11	10.80
Enabling Technology	10	9.80
Diagnostic	9	8.80
Informatics	9	8.80
Agricultural	4	3.90
Genomics	2	2.00
Platform Technology	2	2.00
Proteomics	1	1.00
Other	9	8.80
<b>TOTAL</b>	<b>102</b>	<b>100.00</b>

On a sector basis there has been a strong source of opportunities in the medical device area which is not surprising given Australia has a long track record in this area. Most sub-sectors of biotechnology/life sciences are represented in this table.

### Deal Flow by State



Our source of deals is truly national. Our investment portfolio comprises investments in Queensland (Alchemia), New South Wales (Proteome Systems, Pacific Knowledge Systems) and Victoria (X-Ray Technologies).

## Outlook

The outlook for the company's investment activities remains strong. The level of specialist private equity capital available in the Australian market remains reasonable, albeit concentrated in a small number of groups. As a result, pricing pressure on investments remains modest although high quality opportunities tend to attract significant interest.

In that context, we believe we can secure attractive entry valuations as the portfolio becomes fully invested laying the foundation for attractive longer term returns as the investments mature.

Proteome Systems has achieved an impressive number of milestones since our initial investment. These include the establishment of collaborative R&D programs, the development and launch of the company's hardware platform, alliances with major groups such as Sigma Pharmaceuticals and Thermo-Finnigan. The company is focused on a public listing within the next 12 to 18 months (depending on prevailing market conditions) providing an opportunity for BioTech Capital to consider realising part of this investment and returning the proceeds to shareholders.

Similarly, Alchemia has also achieved a number of significant milestones keeping them on track for a US listing in the medium term. These include securing a strategic alliance with the Dow Chemical Group as well as attracting a leading industry figure (Paul Goddard) to the position of Chairman.

X-Ray Technologies is well positioned to confirm strategic partnerships and/or licensing deals with a number of major international groups as the benefits of its technology becomes apparent to industry. Advanced discussions are underway with groups in the medical, aerospace and semiconductor industries following demonstration of the high resolution images possible using the company's technology.

Pacific Knowledge Systems has made good progress in expanding its client base, developing internal corporate resources as well as developing in-roads to the North American market. The company expects to embark on a subsequent capital raising over the next six to 12 months to assist in international expansion.

Current due diligence is focused on several exciting opportunities. However, the board is not in a position to comment further on these activities nor to predict the timing of the next investment. This is due to the inherent uncertainty surrounding the due diligence process and the possibility that information may be uncovered that would prevent an investment from occurring.

# Financials

## Contents

Directors' Report	14
Information on Directors	15
Statement of Financial Performance	18
Statement of Financial Position	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Directors' Declaration	29
Audit Opinion	29
Shareholder Information	31

# Directors' Report

The directors of BioTech Capital Limited present their report on the financial statements for the period 14 March 2000 to 30 June 2001.

## Directors

The following persons were directors of BioTech Capital Limited ("the company") during the whole of the financial period, unless otherwise stated, and up to the date of this report:

William Edward Baker Ireland (Chairman)  
Alastair John Davidson  
Harry Karelis  
Michael Denis Boyd  
Irene Yun Lien Lee

Marea Elizabeth Laszok and Julian John Gosse, who were both appointed as directors on 14 March 2000, resigned as directors on 18 May 2000.

## Principal Activity

The principal continuing activity of the company consists of investing in entities developing biotechnology solutions for science applications. The company is a company registered under the Pooled Development Funds Act 1992. The company was incorporated on 14 March 2000 and therefore comparative numbers are not available.

During the period the company issued a prospectus, dated 22 June 2000 and raised capital of \$40,030,100 net of issue costs of \$1,024,807. To date the following investments have been investments made:-

September 2000. \$3 million was invested in Proteome Systems Limited, one of the world's leading proteomics companies. Proteomics refers to the isolation and identification of proteins.

December 2000. \$2 million was invested in Pacific Knowledge Systems Pty Limited. PKS was formed in 1996 to develop and commercialise artificial intelligence software.

February 2001. \$2 million was invested in Alchemia Pty Limited a carbohydrate chemistry company that has developed novel methods to synthesise carbohydrate compounds and drugs using chemical synthesis techniques in place of more expensive and demanding methods.

March 2001. \$4 million was invested in XRT Pty Limited a technology imaging company with its foundation at the CSIRO division of Materials and Science and Technology in Melbourne. XRT has made a quantum leap in x-ray development that significantly extends the use of x-ray imaging in medical diagnosis and has broad ranging industrial applications.

## Review of Operations and Results

Operating profit after income tax for the period to 30 June 2001 was \$645,014.

## Dividends

The directors have recommended a final dividend of \$640,241 (0.80 cents per share).

# Information on Directors

Director	Experience	Special Responsibilities	Particulars of Director's Interest	
			Ordinary Shares	Options
WEB Ireland	Expertise gained in stock and option trading, project development and financing and marketing new business ventures, Managing Director of Challenger International Limited.	Executive Director	-	50,000
AJ Davidson	B.Ec (Hons) ACA. Has held executive positions in the banking and financial services for 15 years in the UK, USA and Australia. Currently General Manager, Investment Banking of Challenger International Limited.	Executive Director	20,000	60,000
H Karelis	B.Sc (Hons), MBA, Assoc of SIA, Fellow of AICD, CFA. Has a background in financial analysis and funds management both in Australia and overseas including several years working in Singapore.	Executive Director	100,000	526,000
MD Boyd	CA, Assoc of SIA, Fellow of AICD. Expertise in finance, accounting, company management and the healthcare industry. A major shareholder and/or Director of several listed companies including Sonic Healthcare, Foundation Healthcare.	Director	50,000	225,000
LYL Lee	BA, Barrister at law from Gray's Inn London. Has held senior positions in the investment banking and funds management industry for 20 years in the UK, USA and Australia. Currently is a Non Executive Director of several listed and unlisted companies including TEN, Record Investments, Beyond International and Australian Assets.	Director	40,000	220,000

## Meetings of Directors

The number of meetings of the company's board of directors held for the period 14 March 2000 to 30 June 2001, and the number of meetings attended by each director were:

	Number of Meetings whilst person a Director	Number of Meetings Attended
WEB Ireland	5	4
AJ Davidson	7	7
H Karelis	5	5
MD Boyd	5	2
IYL Lee	4	2
ME Laszok	2	2
JJ Gosse	2	2

## Insurance of Officers

During the financial year, the company paid a premium of \$nil to insure the directors and secretaries of the company.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company or a related body corporate.

## Rounding of Amounts to Nearest Thousand Dollars

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## Matters Subsequent to the End of the Financial Period

No matter or circumstance has arisen since 30 June 2001 that has significantly affected, or may significantly affect:

(a) the entity's operations in future financial years

---

(b) the results of those operations in future financial years

---

(c) the entity's state of affairs in future financial years

---

## Likely Developments and Expected Results of Operations

Further information on likely developments in the operations of the company and the expected results of operations have not been incorporated in the Managing Director's Report because the directors believe it would be likely to result in unreasonable prejudice to the company.

## Environmental Regulation

The company is not subject to any significant environmental regulation in respect of its activities.

## Shares Under Option

Unissued ordinary shares of BioTech Capital Limited under option at the date of this report is 41,300,000, of which 41,300,000 are listed. The options expire on 30 September 2003 at a exercise price of \$0.50. The options may be exercised at any month end between 30 June 2000 and 30 September 2003.

## Auditor

PricewaterhouseCoopers was appointed during the period and continues in office in accordance with section 327 of the Corporations Law.

This report is made in accordance with a resolution of the directors.



AJ Davidson  
Executive Director

Sydney  
5 September 2001

## Financial Report for the period 14 March 2000 to 30 June 2001

This financial report covers BioTech Capital Limited.

BioTech Capital Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

BioTech Capital Limited  
Level 41, Aurora Place  
88 Phillip Street  
SYDNEY NSW 2000

A description of the nature of the entity's operations and its principal activities is included in the Directors' Report on page 14.

# Statement of Financial Performance

For the period 14 March 2000 to 30 June 2001

	Notes	2001 \$'000
Revenue from ordinary activities	2	1,803
Financial expenses		(12)
Management fees		(710)
Other expenses from ordinary activities		(221)
		(943)
Profit from ordinary activities before income tax expense		860
Income tax expense	3	(215)
Operating profit after income tax expense		645
Basic earnings per share		0.81 cents

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

# Statement of Financial Position

As at 30 June 2001

	Notes	2001 \$'000
Current assets		
Cash assets	4	29,068
Receivables	5	31
Total current assets		29,099
Non-current assets		
Investments	6	11,000
Total non-current assets		11,000
Total assets		40,099
Current liabilities		
Payables		889
Current tax liabilities		196
Total current liabilities		1,085
Non-current liabilities		
Deferred tax liabilities		19
Total non-current liabilities		19
Total liabilities		1,104
Net assets		38,995
Equity		
Contributed equity	7	38,990
Retained profits	8	5
Total equity	10	38,995

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

# Statement of Cash Flows

**For the period 14 March 2000 to 30 June 2001**

	Notes	2001 \$'000
Cash flows from operating activities		
Interest received		1,803
Finance costs of finance paid		-
Managers' fees paid		(492)
Payments to suppliers		(233)
Net cash inflow from operating activities	10	1,078
Cash flows from investing activities		
Payments for investments		(11,000)
Net cash outflow from investing activities		(11,000)
Cash flows from financing activities		
Proceeds from issue of shares		40,015
Equity issue costs		(1,025)
Net cash inflow (outflow) from financing activities		38,990
Net increase (decrease) in cash held		29,068
Cash at the beginning of the financial period		-
Effects of exchange rate changes on cash		-
Cash at the end of the financial year	4	29,068

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

30 June 2001

## Note 1 Summary of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standard Board, Urgent Issues Group Consensus Views and the Corporations Law.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies are consistent with those of the previous year.

### (a) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Being a Pooled Development Fund, the company is taxed at 15% on its investment activities and 25% on other income.

### (b) Acquisitions of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

### (c) Revenue Recognition

Interest is brought to account on an accruals basis.

### (d) Investments

Interests in listed and unlisted securities, other than associates, are brought to account at cost and carried at the lower of cost or net realisable value. Dividend income is recognised in the Statement of Financial Performance when receivable.

Bank bills have been purchased in the market at a discount to face value. The bills are carried at an amount representing cost and a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest received.

### (e) Cash

For purposes of the Statement of Cash Flows, cash includes deposits at call and bank bills which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

## (f) Earnings per share

### (i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## Note 2 Revenue

	Year ended 30 June 2001 \$'000
Revenue from operating activities	
Other revenue	
Dividends	-
Interest	1,803
	1,803

## Note 3 Income Tax

The income tax expense for the financial period differs from the amount calculated on the profit. The differences are reconciled as follows:

	Year ended 30 June 2001 \$'000
Profit from ordinary activities before income tax expense	860
Income tax calculated @ 25% (see note 1a)	215
Aggregate income tax expense	215
Aggregate income tax expense comprises:	
Current tax provision	196
Deferred income tax liability	19
	215

## Note 4 Current Assets – Cash Assets

	30 June 2001 \$'000
Cash at bank and on hand	249
Bank bills	28,819
	29,068

## Note 5 Receivables

	30 June 2001 \$'000
Interest receivable	1
Other debtors	31
	32

## Note 6 Other Assets

	30 June 2001 \$'000
Investment in companies	
Proteome Systems Ltd	3,000
Pacific Knowledge Systems Pty Ltd	2,000
Alchemia Pty Ltd	2,000
X-Ray Technologies Pty Ltd	4,000
	11,000

## Note 7 Contributed Equity

		2001 Shares	2001 \$'000		
(a)	Share capital				
	Fully paid ordinary shares	80,030,100	40,015,050		
(b)	Movements in ordinary share capital				
	<b>Date</b>	<b>Details</b>	<b>No. of Shares</b>	<b>Issue Price</b>	<b>\$'000</b>
	10/5/2000	Issue of shares	80,030,100	\$0.50	40,015
		Transaction costs arising on issue of shares			(1,025)
	30/06/2001	Balance	80,030,100		38,990

- (c) Ordinary shares  
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

## Note 8 Retained Profits

	Period to 30 June 2001 \$'000
Retained profits at the beginning of the financial year/period	-
Net profit from ordinary activities after income tax	645
Dividends provided for or paid	(640)
Retained profits at the end of the financial year	5

## Note 9 Equity

	Period to 30 June 2001 \$'000
Total equity at the beginning of the financial year/period	-
Total changes in equity recognised in the Statement of Financial Performance	645
Transactions with owners as owners:	
Dividends paid or payable	(640)
Contributions of equity	38,990
Total equity at the end of the financial year	38,995

## Note 10 Statement of Cash Flows

Reconciliation of operating profit after income tax to the net cash flow from operating activities

	Period to 30 June 2001 \$'000
Operating profit after income tax	645
Changes in assets and liabilities:	
Increase in other debtors	(31)
Increase in provision for income tax payable	196
Increase in deferred tax liabilities	19
Increase in payables	249
Net cash flow from operating activities	1,078

## Note 11 Remuneration of Directors

	Period to 30 June 2001 \$'000
Directors' remuneration	
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or any related party:	43
The number of directors of the company whose income (including superannuation contributions) falls within the following bands is:	No. of Directors
\$0	3
\$20,001-\$30,000	2

## Note 12 Remuneration of Auditors

	Period to 30 June 2001 \$'000
Remuneration for audit or review of the financial Auditor of the parent entity	14
Remuneration for other services: Auditor of the parent entity	12

## Note 13 Related Party Disclosures

### (a) The directors of BioTech Capital Limited during the period were:

WEB Ireland  
 AJ Davidson  
 H Karelis  
 MD Boyd  
 IYL Lee

### (b) Remuneration Benefits

Information on remuneration benefits of directors is disclosed in note 11.

**(c) Transactions of directors and director related entities concerning shares or share options.**

Aggregate number of shares and share options of BioTech Capital Limited acquired or disposed of by directors of the company or their director related entities from the company.

	2001 Number
Ordinary shares acquired	4,210,000
Options over ordinary shares acquired	3,081,000

All ordinary shares were acquired during the period to 30 June 2001. 1,000,000 options were issued to directors in return for services in relation to the initial public offering, 26,000 were acquired by the directors on market the balance were acquired by director related entities. This excludes 30,000 ordinary shares and 150,000 options acquired by ME Laszok and JJ Gosse, who have since resigned.

Aggregate number of shares and share options of BioTech Capital Limited held directly, indirectly or beneficially by directors of the company or their director related entities at balance date.

	2001 Number
Ordinary shares	4,210,000
Options over ordinary shares	3,081,000

**(d) Other transactions with directors and director related entities:**

WEB Ireland is a director and shareholder of Challenger International Limited. AJ Davidson and H Karelis are shareholders of Challenger International Limited. Challenger International Limited, through its wholly owned subsidiary Challenger BioTech Management Limited, is the manager of BioTech Capital Limited. The manager is entitled to be paid an annual management fee equal to 2% of the net value of the assets calculated on a quarterly basis. During the period to 30 June 2001 the management fees payable were \$710,399.

## Note 14 Segment Information

The company operates predominantly in one industry, being the financial services industry.

The company operates in one geographical area, being Australia.

## Note 15 Financial Instruments

At year end the effective interest rates earned on financial assets were as follows:

Financial Asset	Balance \$'000	Interest Rate	Weighted Average Effective Interest Rate
Cash	199	Floating	4.85%
Term deposits	50	Fixed	4.85%
Bank bills	28,818	Floating	5.06%
Total financial assets	29,067		
Total financial liabilities – payables	889	N/A	
Net financial assets	28,178		

The company has no unrecognised financial instruments at balance date.

The company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of these assets.

## Note 16 Earnings Per Share

	Period to 30 June 2001
Basic earnings per share	0.81 cents per share
Weighted average number of ordinary shares outstanding during the period used in the calculation of EPS	80,030,100 shares

Diluted earnings per share is not materially different to basic earnings per share.

# Directors' Declaration

The directors declare that the financial statements and notes set out on pages 18 to 28:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- 
- (b) give a true and fair view of the company's financial position as at 30 June 2001 and of its performance, as represented by the results of its operations and its cash flows, for the financial period 14 March 2001 to 30 June 2001.
- 

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- 
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- 

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



AJ Davidson  
Executive Director

Sydney  
5 September 2001

# Audit Opinion



PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
www.pwcglobal.com/au  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999

## Independent Audit Report to the Members of Biotech Capital Limited

### Scope

We have audited the financial report of Biotech Capital Limited (the Company) for the financial period 14 March 2000 to 30 June 2001 as set out on pages 13 to 29. The Company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001 in Australia so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

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

### Audit Opinion

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 30 June 2001 and of its performance for the financial period 14 March 2000 to 30 June 2001; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements.

PricewaterhouseCoopers  
Chartered Accountants

P K Merrett  
Partner

Sydney  
5 September 2001

# Shareholder Information

## A. Spread of Equity Security Holdings (as at 29 June 2001)

	Ordinary shares	
	Shares	Options
1-1,000	33	6
1,001-5,000	2,741	4,587
5,001-10,000	2,080	726
10,001- 100,000	1,350	467
100,000 and over	31	23
	6,235	5,809

## B. Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities as at 29 June 2001 are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares (%)
Challenger Life Limited	4,000,000	5.00
Commonwealth Custodial Services Limited	1,000,000	1.25
TDH No. 3 Investments Pty Ltd	1,000,000	1.25
Tom Hadley Enterprises Pty Ltd	1,000,000	1.25
Key Insurance Company Pty Ltd	917,468	1.15
Alimoc Pty Limited	765,000	0.96
National Nominees Ltd	639,500	0.80
Thelma Joan Martin-Weber	600,000	0.75
Manawar Pty Ltd	300,000	0.37
Tower Trust Limited	219,700	0.27
Brislan Nominees Pty Ltd	200,000	0.25
Goldmedal Nominees Pty Ltd	200,000	0.25
Mr Patrick Gerald Murray	200,000	0.25
Francesco Oar	200,000	0.25
Mr Felix Christopher Oppen & Ms Katherine Rae Riley	200,000	0.25
Monica Charlotte Oppen	200,000	0.25
Jean Plummer	200,000	0.25
Diana Ingrid Ritchie	200,000	0.25
Ronald Burgoine Nominees Pty Ltd	200,000	0.25
Tonita Pty Ltd	200,000	0.25
	12,441,668	15.55

## C. Voting rights

The voting rights attaching to each class of equity securities are set out below:

**a) Ordinary shares**

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**b) Options**

No voting rights.