Innovative Investments

Annual Report

BioTech Capital Limited ABN 45 091 979 172
Managed by Challenger BioTech Management Ltd
A member of the Challenger International Group

BioTech Capital Limited

Year ended 30 June 2002

Contents

Listed on the Australian Stock Exchange
Ordinary Shares ASX code: BTC
30 September 2003 $0.50 Options ASX Code: BTCO

Chairman's Report

Once again, it is pleasing to be able to deliver what is the 2nd Annual Report for BioTech Capital Limited.

As all shareholders would be aware, the last 12 months have been very challenging for global investment markets. Several major shocks including acts of terrorism and several accounting scandals have shaken confidence in the capital markets. This loss of confidence has crossed over to the 'real' economy and we are now moving through a period of economic slowdown. This combination of factors generally results in a 'flight to safety' or switching from perceived high risk investments into lower risk investments.

This presents those with available capital, numerous opportunites to be acquiring stakes in high quality businesses at reasonable valuations. More importantly, the 'cash is king' mantra means that investments are made on terms favourable to incoming investors allowing them to build in numerous protection mechanisms to help minimise the downside risk to the investment.

Against this backdrop, it is clear that the share-price performance of BioTech Capital has been disappointing. However, it would appear that the disconnection between the share price and the underlying value of the portfolio is too large to be sustained. The portfolio currently stands at six investments representing around 50% of the company's assets. We still have some $19 million available for investment equating to approximately 24 cents per share. With a current share price of around 30 cents, this suggests the market is valuing our six portfolio companies at only 6 cents per share.

We are continually evaluating opportunities and expect to have new investments to announce before the end of this calendar year. As one of the few sources of specialist capital for emerging life-science companies in Australia we are reviewing most deals in the market place. We prefer to be patient to ensure that only the highest quality companies with truly global potential are added to our investment portfolio.

Based on current discussions, we expect that future investments will be in truly world-class technology companies alongside scientific leaders in their fields. In addition, the calibre of our co-investment partners validates our desire to become one of the leading life-science private equity investors in Australia. To ensure you are kept abreast of our latest activities please ensure that you have registered your e-mail address at **www.biotechcapital.com.au**.

The life-sciences industry is without doubt a global industry with very strong growth prospects and the potential for significant investment returns for investors. It is also a very high risk sector that experiences very large cyclical swings in sentiment. The best way for investors to gain exposure is by being diversified and gaining exposure via structures that help minimise risk. This is precisely what BioTech Capital Limited was set up to achieve.

Your Board believes the share market has undervalued the company. Whilst a share buyback has been considered, the plethora of investment opportunites now emerging in the current environment means that capital is best deployed in gaining exposure to these companies. Your Board is firmly of the view that a recovery in global markets and commencement of the IPO/listing process for our portfolio companies should act as the necessary catalyst to trigger a re-rating of our share price.

I would also like to take this opportunity to welcome Professor Tony Basten to the Board. Tony is a distinguished scientist and well respected individual and we are delighted that he has agreed to join us. Further details on Tony's background can be found elsewhere in this report.

I thank you for your patient support as shareholders and I look forward with enthusiasm to announcing new investments, strong progress with existing companies and potential floats in the next 12 months.

Bill 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 2002 totalled $86,000 and comprised interest income.

Net Tangible Asset Backing

The audited Net Tangible Asset backing per share as at 30 June 2002 equated to 48.8 cents. The breakdown of this NTA follows:

Dividends

No dividends have been declared for the period. The policy of the company is to pay out dividends from realised gains from the 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**) to ensure they are kept informed of the latest releases made to the Australian Stock Exchange.

2nd Annual General Meeting

The 2nd Annual General Meeting of shareholders will be held on Monday 11 November 2002 at the offices of Challenger International, Level 41 Aurora Place, 88 Phillip Street Sydney commencing at 2:00pm.

Investment	$ Value	% of Total Funds	Equivalent Cents Per Share
Proteome Systems	$5,375,000	13.75%	6.72
X-Ray Technologies	$4,000,000	10.24%	5.00
Xenome	$3,500,000	8.96%	4.37
Biocomm*	$3,000,000	7.68%	3.75
Pacific Knowledge Systems	$2,075,000	5.31%	2.59
Alchemia	$2,000,000	5.12%	2.50
Net Cash	$19,131,000	48.94%	23.90
Total	**$39,081,000**	**100.00%**	**48.83**

* The investment in Biocomm occurred post June 30 and this amount represents cash reserved for this investment

Managing Director's Report

Biotech Capital Limited (BTC) listed on the Australian Stock Exchange on the 29th August 2000 and in that time has developed into one of Australia's leading life-science investors.

Since listing we have reviewed in excess of 160 opportunities. Of these less than one in 10 pass through to the formal due diligence stage and less than one in 20 converts to an investment. These figures are probably higher than you would expect for venture-capital investing. Also, this reflects the fact that we are able to consider later stage companies as part of our process where the risk is generally lower than investing in purely early stage opportunities.

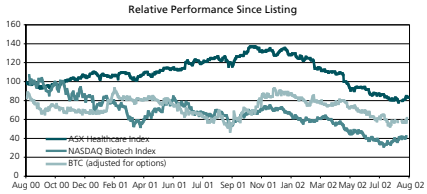
A total of six investments have been concluded at the time of this report including Proteome Systems, Pacific Knowledge Systems, Alchemia, XRT, Xenome and Biocomm (details follow).

We are currently in the late-stages of due diligence on several opportunities and hope to be able to announce new investments in the near future. We would expect to be close to fully invested within the next 12 months.

This ensures that we are on track to achieve our original goal of constructing a portfolio of 10-20 investments with a spread of companies providing risk diversification as well as a steady stream of 'liquidity events' as public markets allow.

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 Net Tangible Asset Backing (NTA) for companies carrying a large portion of their assets in cash.

The chart below compares the relative performance of BioTech Capital since listing against the NASDAQ Biotechnology Index and the Australian Stock Exchange Healthcare Index. It is clear that the share-price of BioTech Capital moves broadly in line with those of the major market indices and in fact has out-performed the more relevant US Biotech Index by a considerable margin since listing. This comparison highlights that a major contributor to the stock's underperformance can be attributed to negative sentiment to the healthcare/biotech sector in general.



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. We expect that as our portfolio companies move towards IPO/public listing and the inherent value becomes crystallised that the share price will respond accordingly.

Areas of Interest

We spend considerable effort in ensuring we remain fully informed of new areas of interest – particularly where Australia may have an existing competitive position or track record. Examples of this includes medical devices, diagnostics, immunology and stem cell biology.

Investors should appreciate that the life sciences industry is a rapidly evolving system where change is a constant and a technology that is competitive today may very well be a broadly available commodity tomorrow.

We seek to invest in those companies that will create dramatic advances in their marketplace and have the potential to become industry leaders. Our forward thinking investment philosophy results in constantly evolving intelligence regarding those types of technologies that should be considered as desirable investment opportunities. Examples of the fields of interest include:

Post-Genomics

In the past few years much attention has been given to the sequencing of the human genome. A watershed achievement in the biological sciences, the thrust of research related to the genome has shifted and is now focused on attaining a comprehensive understanding of this vast reservoir of data and how to exploit and apply that knowledge to produce valuable therapies and diagnostics. Already the increased understanding of that sequence data is yielding many more potential targets for drug discovery.

An unprecedented opportunity to understand the genetic and molecular basis of disease is in parallel creating compelling investment opportunities in those companies developing post-genomics solutions.

Disciplines of interest include:

- **Functional genomics:** The identification of gene function and role in the disease process. Modern functional genomics approaches incorporate major advances in several different areas such as analytical biochemistry, image analysis and robotics to undertake the task on a much larger scale than was possible in the past.

- **Transcriptomics:** Involves the large-scale analysis of messenger RNAs (molecules that are transcribed from active genes) to determine when, where, and under what conditions genes are expressed.

- **Proteomics:** The study of protein expression and function to elucidate their role in the disease process. Because proteins are common drug targets, analysis of proteins is more direct than looking at their precursors, genes and mRNA.

- **Structural genomics:** Generating the three-dimensional structure of proteins to assist in the identification of the characteristics of compounds that will effectively interact with target proteins active sites.

- **Glycomics:** This field studies the biological function of carbohydrates and patterns of

expression as modulated by the environment and the physiological state of the organism. Biologists are finding that minor differences in sugar structures can have a huge impact on biological functions.

- **Pharmacogenomics:** The analysis of genetic variations among individuals and the effect those variations may have on an individual's susceptibility to disease or response to treatment. The desired outcome of this field is to reduce clinical development times and costs, reveal new indications for existing drugs and ultimately generate personalised medicines.

Stem Cell Biology

Much research is being undertaken on cells that have the ability to differentiate into other cell types and be used to regenerate damaged tissue and organs. The field is advancing at a rapid pace with new discoveries reported in scientific literature on a weekly basis. Broadly speaking, most research within the area is targeted at understanding the differentiation process in embryonic stem cells and adult stem cells.

This field of research has enormous implications for the future of medicine, from streamlining the drug development process to eventually developing cell therapies. In the future stem cells may be used to treat such conditions as Alzheimer's disease, Parkinson's disease and spinal cord injuries.

Whilst this area often sparks major ethical debate and can polarise the community with vastly different opinions and perceptions, we believe the enormous benefit that research in this area offers mankind cannot be ignored. Australia is one of the world leaders in this area and so tremendous opportunities exist for investors.

Convergence

The rapid pace of advances in technology and science in recent years is driving a very powerful convergence of many previously discrete industries. Life science companies are increasingly becoming the innovators to develop technologies that act as a bridge between industries, and biology is serving as the inspiration for competing players within a number of industries to develop pioneering products that can give them an edge over the competition. It is resulting in a large number of new, hybrid products and applications that are superior in terms of speed, cost and quality, or even opening up entirely new markets.

We expect to invest in companies developing convergent technology platforms that are the leaders in the drive towards a single unified discipline incorporating sciences such as information technology, materials science, chemistry, physics and biology.

Examples of new convergent technologies emerging include:

- **Biomaterials:** A broad discipline that represents the interfacing of biology with materials science to develop materials with

improved characteristics for a wide variety of applications. Some of these future applications are for drug delivery, disease detection and improved implants.

- **Bionics:** The science of constructing artificial systems that have some of the characteristics of living systems. Applications are cochlear implants, artificial limbs, artificial retinas and other augmentations.

- **Biosensors:** Biosensor technology is the coupling of biology with advances in microelectronics. A biosensor is composed of a biological component (such as an antibody), linked to a tiny transducer. The devices can be used to identify and measure substances at miniscule concentrations.

- **Tissue engineering:** Combining advances in cell biology and materials science is allowing scientists to create semi-synthetic tissues and organs in the lab. These tissues consist of biodegradable scaffolding material and living cells produced through cell culture. Tissue engineers have set out to grow virtually every type of human tissue, with the ultimate objective being to create complex organs composed of multiple tissue types. These could replace or repair diseased or failing organs. This field is barely a decade old but commercial skin products for wound treatments are already on the market.

- **Systems Biology:** Utilising exponential advances in computing power and improved mathematical algorithms are cross-disciplinary groups of scientists attempting to build computational software that focus on the broader biological system and its components' interactions.

- **Microfluidics:** Microfluidics fuses advances in microfabrication, materials science and fluidics. The end result is that minute amounts of fluids may be channeled around on a chip surface to perform experiments, resulting in order of magnitude improvements in time and cost.

Silicon Biology

Information technology has evolved to become an integral component of the modern drug discovery process, transforming and accelerating many steps in the pipeline that begins with basic research and concludes with disease specific pharmaceuticals. Indeed, due to the co-evolution of industrialisation in the drug discovery process it would no longer be possible to manage and analyse the deluge of data that high-density experimentation generates without the aid of computers.

Therefore joining the lexicon alongside 'in vitro' and 'in vivo' is the term 'in silico', which literally refers to experiments taking place inside the computer. As the evolution of information technology continues, larger portions of the drug discovery process will make their way from the laboratory bench to

the computer, streamlining the drug creation process and adding tremendous value.

Examples of this approach include:

- Structure-based drug design: In this approach chemists usually start with a characterised protein target for which they typically have a three-dimensional structure, obtained by methods such as X-ray crystallography, nuclear magnetic resonance (NMR) or computational prediction. Through the use of sophisticated computer modeling techniques chemists will attempt to design a molecule that binds to the active site and is selective against that drug target.

- Virtual Screening (VS): A Compound library is screened for leads by a computer model that assigns a score to molecules depending on their degree of affinity to a target. The compounds screened may be from a library that the company has synthesised or a virtual collection.

- Computational library design: Computational techniques to streamline the search for lead compounds through the design of efficient screening libraries. Computational modeling designs a library for maximal diversity with fewer compounds and then normally follows an iterative process to design focused libraries with properties similar to the best ones found in the previous screening.

- In Silico ADME/tox: Computer models predict the ADMET (Absorption, Distribution, Metabolism, Excretion) and Toxicology properties of new molecules.

Nanomedicine

Nanotechnology is beginning to allow scientists to work at the cellular and molecular scale to produce major benefits for the life sciences. Applications of the science will find some of their first applications in biomedical research and disease diagnosis. For example, nanoparticles considerably smaller than one micron in diameter are being used as a revolutionary way to deliver drugs into cells.

Future applications will be truly disruptive in their impact on industries value chains. We are closely following the progress of nanotechnology and will choose to invest in ventures with enabling platforms if they are sufficiently advanced to allow an exit within a reasonable time frame.

Our Approach

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 48.8 cents per share reflects 23.9 cents in cash and 24.9 cents in investments.

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 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 base 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 of the overall company.

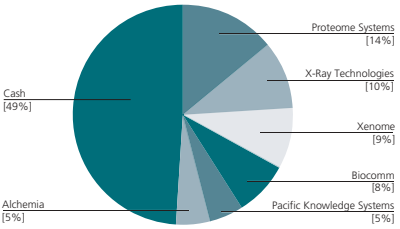
Due Diligence Process

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 all information has been uncovered prior to making an investment decision.

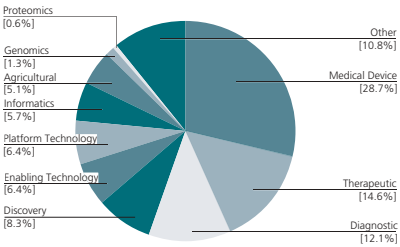
This process takes time and involves both internal and external parties. Typically, the process runs 6-10 weeks before an investment can be concluded. There is no guarantee that what initially appears to be an attractive opportunity ultimately passes due diligence and becomes a member of BioTech Capital's investment portfolio. In fact, on several occasions we have declined to invest in certain companies after several weeks of due diligence uncovered significant issues that could not be resolved.

Portfolio Analysis

The chart below indicates the current portfolio structure of Biotech Capital. Cash represents 49% of the portfolio or the equivalent of 23.9 cents per share.



The chart below indicates the diversified nature of investment opportunities reviewed by BioTech Capital Limited.



Outlook

The current investment environment is very conducive to securing attractive exposure to exciting companies. Given the fact that approximately 49% of our capital remains to be invested, we are working hard on finalising very attractive investments to add to the existing portfolio.

In addition, our existing portfolio companies are largely achieving significant milestones providing support for increases in their underlying values. As with all venture-capital investments there tends to be a delay period of 2-3 years between the time of the original investment and events triggering revaluations. This merely reflects the time taken for a young company to develop, achieve technical milestones and forge the necessary alliances and partnerships to facilitate market penetration.

As we enter our third year of operations there is a strong basis for optimism that the underlying value of the portfolio companies is not being captured in the current share-price. Accordingly, as these companies mature and develop and as global capital markets become more positive we would expect several opportunities will emerge for revaluations of the portfolio.

Current due diligence is focused on several exciting opportunities with truly world-class companies and alongside world class investment groups. 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.

At this stage we expect at least one new investment to conclude this calendar year and to move towards being close to fully invested over the next 12 months.

Board of Directors

William Ireland

Bill Ireland is the Managing Director and a principal shareholder of the listed company, Challenger International Limited (Challenger) which was established in 1986. Over the last five years, Challenger has developed an array of financial products for local and overseas investors.

Mr Ireland has extensive experience in financial markets with a background in trading shares and options. Mr Ireland is the non-executive Chairman of JAM Development Capital Limited and eFinancial Capital Limited.

Alastair Davidson

Alastair Davidson is General Manager of Investment Banking at Challenger International Limited and has held executive positions in the banking and financial services industry for 16 years in the UK, USA and Australia. Prior to joining Challenger he was with Salomon Smith Barney in Sydney for 8 years as co-head of its new product group, specialising in equity derivatives.

He is a member of the Institute of Chartered Accountants in Scotland and has an Honours degree in Economics from the University of St Andrews.

Harry Karelis

Harry Karelis is the Managing Director of Biotech Capital Limited. Harry graduated from The University of Western Australia with Bachelors and Honours in Science majoring in Biochemistry and Microbiology as well as a Masters in Business Administration.

He is an Associate of the Securities Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the Association of Investment Management and Research (AIMR) in the United States.

He has a background in financial analysis and funds management both in Australia and overseas including several years working in Singapore where he was employed by a major international bank.

Irene Yun Lien Lee

Irene Lee has held senior positions in the investment banking and funds management industry for 21 years in the UK, USA and Australia. She was most recently CEO and Executive Director of Sealcorp Holdings Ltd, the largest mastertrust in Australia with $5.5 billion of funds under administration. Prior to that she was head of corporate finance at Commonwealth Bank of Australia for five years.

She is a barrister-at-law from Gray's Inn, London, UK and holds a Bachelor of Arts degree from Smith College, Massachusetts, USA.

She is a non-executive Director of several public companies including Beyond International Ltd, Ten Network Holding Ltd and QBE Insurance Group Ltd.

Professor Tony Basten

Professor Basten is the Executive Director of the Centenary Institute of Cancer Medicine & Cell Biology, Professor of Immunology at the University of Sydney, Director of the Central Sydney Area Health Clinical Immunology and Allergy Service and Chief Scientist of the Institute's biotech company, CenTec. He was winner of the inaugural Wellcome Australia Medal for Distinguished Discovery and its Demonstrated Use, a Florey Lecturer of the Royal Society, London and the Chief Commonwealth Advisor on the medical and scientific aspects of HIV/AIDS.

He is a clinician/scientist and his research spans the interface between the laboratory and the bedside. On the commercial front he has secured, together with colleagues, a number of industry grants and experience in the running of clinical trials and has served on the scientific advisory boards of biotech companies. In recognition of his contributions to medicine and health and medical research he became an Officer in the General Division Order of Australia and was elected to Fellowship of the Australian Academies of Science and Technological Sciences and Engineering.

Scientific Advisors

Overview

Through the Manager, Biotech Capital has access to the services of Foursight Associates as a Scientific Advisory Group. The Principals of Foursight comprise four of Australia's best known and respected scientists.

Sir Gustav Nossal AC CBE

After graduating in medicine at Sydney University, Sir Gustav became a research Fellow at the Walter and Eliza Hall Institute of Medical Research (Melbourne, Australia), achieving a PhD and ultimately Directorship of the Hall Institute in 1965. He was also Professor of Medical Biology at the University of Melbourne.

Sir Gustav has written 5 books and 500 scientific articles. His eminence in the field was recognised by his election as President of the world body of immunology, the International Union of Immunological Societies from 1986 to 1989. He has also served as President of the Australian Academy of Science, a member of the Prime Minister's Science, Engineering and Innovation Council and a member of the Board of CSIRO – one of the world's largest publicly funded research organisations.

He chairs the World Health Organisation Committee overseeing the global programme for vaccines and immunisation. He was knighted in 1977, then made a Companion of the order of Australia, and was awarded Australian of the Year 2000. He has also received honours in the USA, the UK and other countries.

Dr Graham Mitchell AO

A Veterinary graduate and University Gold Medallist of the University of Sydney, Graham made discoveries in cellular immunology at the Walter and Eliza Hall Institute and obtained a PhD in 1969. He gained research experience in the USA, UK and Switzerland and returned to Australia to establish a new programme in immunoparasitology at the Walter and Eliza Hall Institute and was instrumental in establishing a long-term programme with the disease schistomiasis in the Philippines.

Graham has been a director of the Royal Melbourne Zoological Gardens and a Director in Research in R&D at CSL Limited. He has worked with the World Health Organisation, written more than 350 publications and was awarded Officer of the Order of Australia for services to medical science. Graham is a principal adviser in Science, Engineering and Technology to the Victorian Government and a non-executive director of several listed life-science companies.

Dr John Stocker AO

Following his medical studies at the University of Melbourne, and residency at the Royal Melbourne Hospital, John embarked on a career in medical research. He was a member of the Basel Institute for immunology in Switzerland and joined Hoffman La-Roche and Co in the company's central research unit. He became Roche's Director of Pharmaceutical Research in 1986. He returned to Australia in 1987 to become founding Managing Director of AMRAD Corporation Ltd. From 1990-1995 he served as Chief Executive Officer of CSIRO. He was appointed Chief Scientist to the Commonwealth Government in 1996. He has been a member of the Prime Minister's Science, Engineering and Innovation Council, the Australian Research Council and Chairman of the Australian Science Technology and Engineering Council (ASTEC).

He is a Director of several public companies including Cambridge Antibody Technology plc where he also Chairs the Scientific Advisory Committee.

Professor David Penington AC

A graduate of Oxford University, David was a medical practitioner, teacher and researcher in London. He returned to Australia and was appointed Professor of Medicine at the University of Melbourne in 1970 and Dean of the Faculty of Medicine from 1978 to 1986. In 1988 Professor Penington was appointed a Companion of the Order of Australia for services to medicine and the community.

He has been Chairman of the National Blood Transfusion Committee of the Australian Red Cross Society, Director of the Tianjin Blood Transfusion Development Program, Chief Adviser on Health Policy to the Victorian Health Department and Board member of the Royal Melbourne Hospital, the Walter and Eliza Hall Institute, the Peter McCallum Cancer Institute and the Ludwig Institute for Cancer Research. David is Chairman of Cochlear Limited (the Company which developed and manufactures the 'bionic ear'). He is Professor Emeritus of the University of Melbourne.

Investments

Alchemia Pty Ltd

www.alchemia.com.au

Business Type	Combinatorial chemistry, carbohydrates
Location	Brisbane, Australia; Redwood City, California USA
Date of First Investment	February 2001
Board Seat	No
Stage of Investment	Expansion
Funds Committed	A$2,000,000
Equity Ownership	3.3%

Background

Alchemia was founded in 1995 to develop and commercialise a novel method for the production of carbohydrate compounds known as oligosaccharides – essentially sugar-based molecules. This field of science is increasingly being referred to as 'glycomics'. Alchemia's technology utilises custom chemical synthesis techniques potentially replacing the more limited and expensive enzymatic production methods.

As carbohydrates are a very important class of biological molecules (eg. DNA, proteins) the ability to cost-effectively produce custom molecules opens up enormous opportunities to identify a whole new class of potential therapeutic molecules. Examples include anti-toxins, immunosuppressants for use in organ transplantations as well as anti-clotting agents such as heparin.

The company has made considerable progress and has announced several collaborations with groups such as CelTor (California, USA) and Euroscreen (Belgium, Europe) to screen the company's library of molecules against certain cellular targets in order to identify potential drug leads.

We expect that Alchemia will embark on a capital raising in the short term as a precursor to a possible public listing of the company.

Key Points

- Compelling technology platform with unique attributes
- Alliance with Dow Chemical a major positive
- Potential drug and nutraceutical compounds identified
- High calibre Chairman
- US presence established
- Clear exit strategy via public listing

Biocomm Ltd

www.biocomm.com.au

Business Type	Intellectual property commercialisation
Location	Melbourne, Australia
Date of First Investment	June 2002
Board Seat	Yes
Stage of Investment	Early
Funds Committed	A$3,000,000
Equity Ownership	24%

Background

Biocomm Ltd (Biocomm) represents BioTech Capital's most recent investment and can best be described as an intellectual property management company. Other investors participating include Rothschild Bioscience Fund, Macquarie Bank and Queensland Investment Corporation.

Biocomm is a Melbourne-based company whose primary aim is to improve the effectiveness with which academic research in medical biotechnology is commercialised. Its role is to provide an internationally recognised high quality business development service to commercialise biomedical research from its academic members.

Biocomm's members include Monash University's Faculty of Medicine, RMIT Faculty of Life Sciences, Baker Institute of Medical Research, Prince Henry's Institute of Medical Research, Victorian College of Pharmacy, Peter MacCallum Cancer Institute, Mental Health Research Institute, MacFarlane Burnet Centre, Murdoch and Children's Research Institute, Neurosciences Victoria, St Vincent's Institute of Medical Research and the Austin Research Institute.

Biocomm provides a range of specialised services to both members and non-members. The business model of the group is to identify technologies amongst its membership base and seek to commercialise the technology in question via a straight sale to the most appropriate group, a licensing/royalty arrangement or through spinning out a separate company in its own right. Biocomm then earns revenue from the provision of these activities including a commission on any funds received by member institutes and/or equity in any spin-out company formed.

As an investor in Biocomm, BioTech Capital can seek to invest directly in any of these spin-out opportunities providing a strong source of deal-flow.

Key Points

- Unique business model
- Provides very good access to opportunities in Victoria – arguably Australia's leading generator of life-science intellectual property
- Attractive investment structure ensuring interests of investors are protected
- High calibre group of co-investors

Pacific Knowledge Systems Pty Ltd

www.pks.com.au

Business Type	Informatics, pathology industry
Location	Sydney, Australia
Date of First Investment	December 2000
Board Seat	Yes
Stage of Investment	Early
Funds Invested	A$2,075,000 (via ordinary shares and convertible note)
Equity Ownership	10% (17% upon conversion of note)

Background

Pacific Knowledge Systems (PKS) has commercialised technology known as Ripple-Down-Rules into a product specifically designed for the pathology industry known as LabWizardTM. This product is designed as a productivity tool for pathologists in the interpretation of pathology results and is in use at a range of sites across Australia. The underlying technology has multiple applications providing an opportunity for developing other products.

Whilst early progress proved disappointing due to a combination of factors, the corporate restructure implemented earlier this year is reaping rewards with considerable achievements made.

New client sites including Gribbles Pathology – the third largest pathology group in Australia as well as laboratories in Adelaide and Canberra validating the product's credentials.

The company has also successfully demonstrated the applicability of the technology in the agricultural diagnostics market.

A key focus of the group currently is to place the technology into a key reference site(s) in the United States. This will provide the opportunity to showcase the benefits of the technology in the world's largest market and develop a wider understanding of the product features.

Key Points

- Compelling technology with unique attributes
- Clear application in the pathology industry with established reference sites/clients
- Platform technology with multiple applications
- Non-pathology applications demonstrated
- Initial management team failed to execute the business plan
- Corporate restructure now reaping benefits
- Looking to add value via US strategy and implement trade sale in due course

Proteome Systems Ltd

www.proteomesystems.com

Business Type	Proteomics tools, informatics, discovery
Location	Sydney, Australia; Boston, USA; Tokyo, Japan
Date of First Investment	September 2000
Board Seat	No
Stage of Investment	Late
Funds Invested	A$5,375,000 $A3,000,000 initially, $A2,375,000 invested subsequently)
Equity Ownership	2.6%

Background

Proteome Systems Ltd (PSL) is a leading proteomics technology and discovery company. With its technology partners, Proteome Systems has developed and commercialised a comprehensive solution for high throughput proteomics. These technologies are integrated by a proprietary and sophisticated bioinformatics system and are implemented in Proteome Systems' discovery programs in the areas of cystic fibrosis, cancer, infectious disease and aging.

Partnerships are in place with IBM, Shimadzu, Thermo-Finnigan, Sigma-Aldrich, Millipore, Bayer Crop Science and the Cystic Fibrosis Foundation (USA).

The company has recently announced the establishment of Proteome Systems Japan, a joint venture with Itochu, to facilitate the penetration of this important market. PSL is also rapidly expanding the diagnostic applications of its technology as their technology platform allows for the identification of rare proteins that can be used as specific markers in the identification of certain diseases.

PSL is one of the largest and best known of the private biotech companies in Australia. The company is planning on an IPO (Initial Public Offering or listing) on the most appropriate stock exchange and is in discussions with several investment banks to facilitate this process. The timing of this will be dependent on prevailing market conditions and sentiment.

Key Points

- Very strong management and scientific team
- World leaders in proteomics – glycoproteins
- History of working with large multi-nationals and delivering against milestones
- Strong corporate collaborations
- Strong intellectual property position
- Discovery activities provide significant upside
- Later stage investment
- Clear exit strategy

Xenome Ltd

www.xenome.com.au

Business Type	Drug discovery, neuroactive compounds
Location	Brisbane, Australia
Date of First Investment	November 2001
Board Seat	Yes
Stage of Investment	Early stage
Funds Invested	A$3,500,000
Equity Ownership	27.3%

Background

Xenome is biopharmaceutical company focused on the discovery and development of novel therapeutics based on the components of venoms and toxins. The company has an exclusive worldwide license to a large variety of novel venom peptide compounds and a technology platform that incorporates expertise in genomics, peptide chemistry and pharmacology. The company has a number of molecules under development and also has rights to any income derived by the University of Queensland to a drug lead called AM336.

The group is currently progressing its own lead molecule into clinical trials. Xenome has also entered into collaborative agreements with several groups including Cytopia (Australia), Ionix Pharmaceuticals (UK) and Icagen (US) for the screening of its peptide library of molecules against targets of interest in the areas of pain, inflammation and cancer.

The group continues to be approached by numerous organisations around the globe who seek access to the company's unique technology.

Key Points

- Strong intellectual property position
- Very strong management and scientific team
- Operating in a novel area – conotoxins
- One of only a very small number of groups operating in this area
- Compound library is very prospective for drug candidates
- Attractive valuations

XRT Ltd

www.xrt.com.au

Business Type	Imaging technology
Location	Melbourne, Australia
Date of First Investment	March 2001
Board Seat	Yes
Stage of Investment	Expansion
Funds Invested	A$4,000,000
Equity Ownership	20%

Background

XRT was formed as a spinout company from the leading Australian research organization, CSIRO. XRT is a global pioneer in ultra-high resolution imaging based on its state-of-the-art patented phase contrast imaging techniques. The technology allows for imaging of unparalleled quality in a range of medical and industrial applications.

The group has demonstrated clear applications in the area of medical imaging, semiconductor, aerospace and paper and packaging industries.

Product sales have commenced and a leading North American semiconductor manufacturer is currently evaluating one of the group's imaging platforms in a quality control/failure analysis application.

The demand for the company's imaging technology is expected to increase following the recent announcement that it has entered into an alliance with EDAX Inc. to market the group's X-Ray Ultra Microscope (XuM) globally. EDAX is a subsidiary of AMETEK Inc which is a leading global manufacturer of electronic instruments and motors with annual sales of more than US$1 billion.

We expect further positive news from XRT in coming months as full scale commercialisation begins and associated revenues commence. We would expect a likely exit strategy either via a trade sale or a public listing on the Australian market within the next three years.

Key Points

- Strong intellectual property position with excellent pedigree (CSIRO, Nature)
- Very strong management and scientific team
- Very large markets
- Clear market need for the technology
- Low technical risk – technology has been validated
- Clear exit strategy

This page has been left blank intentionally.

Financial Report

Contents

Directors' Report

The Directors of Biotech Capital Limited present their report on the financial statements for the year ended 30 June 2002.

Directors

The following persons were directors of Biotech Capital Limited (the company) during the whole of the financial year, unless otherwise stated, and up to the date of this report.

William Edward Baker Ireland (Chairman)
Alastair John Davidson
Harry Karelis
Irene Yun Lien Lee
Anthony Basten

Michael Denis Boyd who was appointed as a director on 18 May 2000, resigned as director on 15 February 2002.

Anthony Basten was appointed as a director on 27 June 2002.

Principal Activities

The principal continuing activities of the company consist of investing in entities developing biotechnology solutions for science applications. The company is a company registered under the Pooled Development Funds Act 1992.

The following investments have been made during the year:
November 2001. $3.5 million was invested in Xenome Limited, a genomics/ drug discovery company, focusing on molecules which could be used for pain relief.

February 2002. A further $2.375 million was invested in Proteome Systems Limited, one of the world's leading Proteomics companies, which increased the interest from 1.8% to 2.57%.

During the year, the directors announced that the company would invest up to $3 million in Biocomm Services Pty Limited, a company providing internationally recognised high quality business development services to commercialise life sciences research from its academic members. Up until the date of this report, the investment has not reached legal completion.

Review of Operations and Results

The revenues for the year ended 30 June 2002 totalled $1,206,943 (2001: $1,802,712). The operating profit after income tax for the year ended 30 June 2002 was $86,096 (2001: $645,014).

Dividends

No dividends were declared during the year. The final dividend for the year ended 30 June 2001 of $641,000 (0.8 cents per share) was paid during the year.

Information on Directors

Director	Experience	Special Responsibilities	Particulars of Directors' 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.	Non-Executive Chairman	-	50,000
AJ Davison	B.Ec(Hons) ACA. Has held executive positions in the banking and financial services for 16 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 CFA ASIA FAICD. Has a background in financial analysis and funds management both in Australia and overseas including several years working in Singapore.	Managing Director	300,000	526,000
M Boyd	Was a director from the start of the year until his resignation on 15 February 2002.	Director	-	-

Special Director	Particulars of Experience	Responsibilities	Directors' Interest	
			Ordinary Shares	Options
I Lee	BA, Barrister at law from Gray's Inn London. Has held senior positions in the investment banking and funds management industry for 21 years in the UK, USA and Australia. Currently is a non executive director of several listed and unlisted companies including QBE, TEN, Record Investments, Beyond International Ltd and Australian Assets. Member of the Takeover Panel and Trustee of Art Gallery of New South Wales.	Director	40,000	220,000
A Basten	Ph.D AO FTSE, Fellowship of Australian Academies of Science and Technological Sciences and Engineering. Is a highly distinguished clinician/scientist. Currently Executive Director of the Centenary Institute of Cancer Medicine & Cell Biology, Professor of Immunology at the University of Sydney, Director of central Sydney Area Health Clinical Immunology and Allergy Service and Chief Scientist at the biotech company CenTec.	Director	-	-

Meetings of Directors

The number of meetings of the company's board of directors held for the year ended 30 June 2002, and the number of meetings attended by each director were:

	Number of Meetings Whilst Person a Director	Number of Meetings Attended
WEB Ireland	8	6
AJ Davison	8	8
H Karelis	8	8
M Boyd	5	1
I Lee	8	7
A Basten	0	0

Directors' Remuneration

Non-Executive Directors of Biotech Capital Limited	Director's Base Fee $	Total $
M D Boyd (director from 01/07/2001 to 15/02/2002)	20,000	20,000
I Lee	20,000	20,000
A Basten (director from 27/06/2002)	-	-
WEB Ireland	-	-

Executive Directors of Biotech Capital Limited	Director's Base Fee $	Total $
AJ Davidson	-	-
H Karelis	-	-

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.

Matters Subsequent to the End of the Financial Period

No matter or circumstance has arisen since 30 June 2002 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 Directors' 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 an exercise price of $0.50. The options may be exercised at any month end between 30 June 2000 and 30 September 2003.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Law.

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

A J Davison
Director

Sydney
26 September 2002

Corporate Governance Statement

Board of Directors

In view of the Company's management agreement with Challenger BioTech Management Limited, it is policy to have a relatively small number of directors, yet who possess, both as individuals and collectively, the business and technical skills considered necessary for the Company to pursue and achieve a successful commercial outcome.

The present Board consists of 5 directors. Of these, 2 directors are 'independent' of the Challenger International Limited group, of which the Manager is a member. It is the policy that not less than 40% of the company's Board shall be made up of independent directors.

The constitution provides for not less than 3, nor more than 10 directors to hold office, unless members determine otherwise.

At each Annual General Meeting, one third of the Relevant Directors (as defined in the Constitution) will retire from office and be eligible for re-election.

Non-Executive Directors

The Constitution provides that:

- directors may hold any other office or place of profit in the Company (except that of auditor) in conjunction with the office of Director, on terms as the Directors arrange

---

- subject to the Corporations Law, no director will be disqualified by virtue of holding the office of Director from:
    - holding any office or place of profit under any corporation in which the Company is a shareholder, or is otherwise interested
    - contracting with the Company or any corporation in which the Company is a shareholder, or is otherwise interested
    - acting, for remuneration, in a professional capacity for the Company or any corporation in which the Company is a shareholder, or is otherwise interested.

Subject to these provisions, the independence of non-executive directors is ensured by several means, including:

- appointment only of persons of eminent professional standing, suitable experience and qualifications

---

- the person is not a substantial shareholder

- the person is not a member of the Company's management

- the person is not a professional adviser to, or customer of the Company

- the person has no significant contractual relationship with the Company, other than as a director,

- the person, as a director, has no interest or business relationship with the Company which could, or could be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Independent Professional Advice

Following Board level consultation, a director may, at the company's expense, seek professional advice considered necessary for due performance of the director's duties. It is policy to draw on the expert advisory services of Foursight Associates Pty Ltd, through the Manager, or directly upon other independent consultants, for evaluation of investment proposals from a scientific and biomedical viewpoint.

Remuneration of Directors

The remuneration of the non-executive directors is determined by the Board under the provisions of the Constitution.

Three directors, being the Chairman, Mr Ireland, the Managing Director, Mr Karelis and Mr Davidson, as directors of Challenger International Limited group (of which the Company's Manager is a member), currently receive no directors' fees.

Ethical Standards

It is policy to firmly safeguard the Company's good reputation as a leading source of specialist capital for emerging life-sciences companies in Australia. This is achieved through the combined vigilance of Board members and executives, the complaints handling measures of the company and the Manager, and a commitment to highest standards of legislative compliance and ethical behaviour.

The directors are committed to the principles of best practice in corporate governance, applied in a manner which is most suited to the Company.

All investments are subject to a thorough evaluation process and must comply with the general rationale of the PDF program, which encourages the provision of patient equity capital to small and medium sized Australian companies.

The Managing Director is responsible for ensuring that each investment is undertaken and administered in full accordance with the requirements of the PDF Act.

Trading in Company's Securities

The Company has adopted a policy of restricting trading in its securities by directors, officers and employees. The policy generally prohibits trading during certain periods prior to and after periodic reports to members/ASX, and in the lead up to the release of any other 'price sensitive' information, under continuous disclosure requirements.

Risk Management

The Board evaluates and monitors the Company's areas of operations for any significant business risk, and ensures that insurance cover and other necessary safeguards are in place to limit any undue risk exposure.

Committees

The directors may delegate any of their powers to committees consisting of one or more members who are directors, as they think fit.

The directors have not yet established any such committees.

External Auditor

It is policy to appoint the same external auditor as that appointed by the Manager for combined 'effectiveness/cost efficiency' reasons.

Under the Management Agreement, the Manager is required to select and manage the Company's PDF investments, arrange short term investment of its liquid funds and render appropriate accounts for the management fees. The Manager's external auditor thus examines those transactions which underlie most of the Company's expenditure and represent the bulk of its assets and operating expense.

The Board assists but does not instruct the Auditor, nor will it permit any interference or obstruction of the due audit process.

The Company's, and the Manager's, external auditor is PricewaterhouseCoopers.

This page has been left blank intentionally.

Financial Report

Contents

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 pages 24-28.

Statement of Financial Performance

For the year ended 30 June 2002

	Notes	2002 $'000	2001 $'000
Revenue from ordinary activities	2	1,207	1,803
Financial expenses		-	(12)
Management fees		(797)	(710)
Other expenses from ordinary activities		(295)	(221)
		(1,092)	**(943)**
Profit from ordinary activities before income tax expense		115	860
Income tax expense	3	(29)	(215)
Operating profit after income tax expense		86	645
Basic earnings per share		0.11 cents	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 2002

	Notes	2002 $'000	2001 $'000
Current assets			
Cash assets	4	22,408	29,068
Receivables	5	19	31
Deferred Tax Assets		3	-
Total current assets		**22,430**	**29,099**
Non-current assets			
Investments	6	16,950	11,000
Total non-current assets		16,950	11,000
Total assets		**39,380**	**40,099**
Current liabilities			
Payables	7	249	889
Current tax liabilities		39	196
Total current liabilities		**288**	**1,085**
Non-current liabilities			
Deferred tax liabilities		11	19
Total non-current liabilities		11	19
Total liabilities		**299**	**1,104**
Net assets		**39,081**	**38,995**
Equity			
Contributed equity	8	38,990	38,990
Retained profits	9	91	5
Total equity	10	**39,081**	**38,995**

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

Statement of Cash Flows

For the year ended 30 June 2002

	Notes	2002 $'000	2001 $'000
Cash flows from operating activities			
Interest received		1,166	1,803
Other income received		40	-
Finance costs of finance paid		-	-
Managers' fees paid		(800)	(492)
Payments to suppliers		(279)	(233)
Income taxes paid		(196)	-
Net cash inflow from operating activities	11	(69)	1,078
Cash flows from investing activities			
Payments for investments		(5,950)	(11,000)
Net cash outflow from investing activities		(5,950)	(11,000)
Cash flows from financing activities			
Proceeds from issue of shares		-	40,015
Equity issue costs		-	(1,025)
Dividends paid		(641)	-
Net cash inflow (outflow) from financing activities		(641)	38,990
Net increase (decrease) in cash held		(6,660)	29,068
Cash at the beginning of the financial period		29,068	-
Cash at the end of the financial year	4	**22,408**	**29,068**

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

Notes to the Financial Statements

30 June 2002

Contents

Notes to the Financial Statements

30 June 2002

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.

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.

Dividend income is recognised in the statement of financial performance when receivable.

(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.

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.

(g) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date, as well as any dividends to be paid out of retained profits at the end of the financial year where the dividend was proposed, recommended or declared between the end of the year and the completion of the financial report.

(h) Summary of Significant Accounting Policies

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

Note 2 – Revenue

	Year ended 30 June 2002 $'000	Year ended 30 June 2001 $'000
Interest	1,167	1,803
Other	40	-
	1,207	**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 2002 $'000	Year ended 30 June 2001 $'000
Profit from ordinary activities before income tax expense	115	860
Income tax calculated @ 25% (see note 1a)	29	215
Aggregate income tax expense	29	215
Aggregate income tax expense comprises:		
Current tax provision	39	196
Deferred income tax liability	(7)	19
Deferrd tax asset	(3)	-
	29	**215**

Note 4 – Current Assets – Cash Assets

	30 June 2002 $'000	30 June 2001 $'000
Cash at bank and on hand	549	249
Bank bills	21,859	28,819
	22,408	**29,068**

Note 5 – Receivables

	30 June 2002 $'000	30 June 2001 $'000
Interest receivable	1	1
Other debtors	18	30
	19	**31**

Note 6 – Investments

	30 June 2002 $'000	30 June 2001 $'000
Investment in companies		
Proteome Systems Ltd	5,375	3,000
Pacific Knowledge Systems Pty Ltd	2,000	2,000
Alchemia Pty Ltd	2,000	2,000
X-Ray Technologies Pty Ltd	4,000	4,000
Xenome Ltd	3,500	-
	16,875	11,000
Investment in convertible notes		
Pacific Knowledge Systems Pty Ltd	75	-
	75	-
	16,950	**11,000**

Note 7 – Payables

	30 June 2002 $'000	30 June 2001 $'000
Dividend payable	-	641
Other	249	248
	249	**889**

Note 8 – Contributed Equity

		2002 Shares	2002 $'000	2001 Shares	2001 $'000
(a)	Share capital				
	Fully paid ordinary shares	80,030,100	38,990	80,030,100	38,990

(b) Movements in ordinary share capital

Date	Details	No. of Shares	Issue Price	$'000
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
30/06/2002	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 9 – Retained Profits

	30 June 2002 $'000	30 June 2001 $'000
Retained profits at the beginning of the financial year/period	5	-
Net profit from ordinary activities after income tax	86	645
Dividends provided for or paid	-	(640)
Retained profits at the end of the financial year	91	5

Note 10 – Equity

	30 June 2002 $'000	30 June 2001 $'000
Total equity at the beginning of the financial year/period	38,995	-
Total changes in equity recognised in the Statement of Financial Performance	86	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	**39,081**	**38,995**

Note 11 – Reconciliation of Operating Profit after Income Tax to the Net Cash Flow from Operating Activities

	30 June 2002 $'000	30 June 2001 $'000
Operating profit after income tax	86	645
Changes in assets and liabilities:		
(Increase)/Decrease in other debtors	18	(31)
Increase in future income tax benefit	(3)	-
Increase/(Decrease) in provision for income tax payable	(156)	196
Increase/(Decrease) in deferred tax liabilities	(8)	19
Increase/(Decrease) in payables	(6)	249
Net cash flow from operating activities	**(69)**	**1,078**

Note 12 – Remuneration of Directors

	30 June 2002 $	30 June 2001 $
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:	40,000	43,333
The number of directors of the company whose income (including superannuation contributions) falls within the following bands is:		
	No. of Directors	No. of Directors
$0	4	3
$10,001-$20,000	2	0
$20,001-$30,000	0	2

Note 13 – Remuneration of Auditors

	30 June 2002 $	30 June 2001 $
Remuneration for audit or review of the financial statements	14,600	14,000
Remuneration for taxation services	2,500	12,000

Note 14 – Related Party Disclosures

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

WEB Ireland
AJ Davidson
H Karelis
IYL Lee
A Basten (appointed on 27 June 2002)
M D Boyd (resigned on 15 February 2002)

(b) Remuneration Benefits

Information on remuneration benefits of directors is disclosed in note 12.

(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.

	2002 Number	2001 Number
Ordinary shares acquired	110,000	4,160,000
Options over ordinary shares acquired/(disposed of)	(54,500)	2,856,000

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.

	2002 Number	2001 Number
Ordinary shares	4,270,000	4,160,000
Options over ordinary shares	2,801,500	2,856,000

These figures, including the 2001 comparatives, exclude 50,000 ordinary shares and 225,000 options held by M D Boyd who resigned on 15 February 2002.

(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 employees and 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 2.0% of the net value of the assets calculated on a quarterly basis. During the period to 30 June 2002 the management fees payable were $796,943 (2001: $710,399).

The company has an inter-entity loan of $5,495 with Challenger Group Services Pty Limited. This relates to the payment of directors fees on behalf of the company.

Note 15 – Segment Information

The company operates in one business segment where it invests in entities developing biotechnology solutions for science applications.

The company operates in one geographical segment being Australia.

Note 16 – 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	549	Floating	3.5%
Term deposits	-	Fixed	-
Bank bills	21,859	Floating	4.93%
Receivables	19	N/A	-
Total financial assets	**22,427**		
Total financial liabilities – payables	249	N/A	-
Net financial assets	**22,178**		

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.

30 June 2001

Financial Asset	Balance $'000	Interest Rate	Weighted Average Effective Interest Rate
Cash	199	Floating	4.85%
Term deposits	50	Fixed	4.85%
Bank bills	28,819	Floating	5.06%
Receivables	31	N/A	-
Total financial assets	**29,099**		
Total financial liabilities – payables	889	N/A	-
Net financial assets	**28,210**		

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 17 – Earnings Per Share

	30 June 2002	30 June 2001
Basic earnings per share	0.11 cents 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	80,030,100 shares
Diluted earnings per share	0.11 cents per share	0.81 cents per share
Weighted average number of ordinary shares and potential ordinary shares outstanding during the period used in the calculation of diluted EPS	80,030,100 shares	80,030,100 shares

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 34 to 47:

(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 2002 and of its performance, as represented by the results of its operations and its cash flows on that date.

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
26 September 2002

This page has been left blank intentionally.

PRICEWATERHOUSECOOPERS

Independent Audit Report to the Members of Biotech Capital Ltd

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Audit Opinion

In our opinion, the financial report, set out on pages 34 to 48:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Biotech Capital Ltd as at 30 June 2002 and of its performance for the year ended on that date
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

Scope and Summary of our Role

The financial report – responsibility and content

The preparation of the financial report for the year ended 30 June 2002 is the responsibility of the directors of Biotech Capital Ltd. It includes the financial statements for Biotech Capital Ltd (the Company).

The Auditor's Role and Work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

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

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report
- obtaining written confirmation regarding material representations made to us in connection with the audit
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

Independence

As auditor, we are required to be independent of the Company and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Company. These services are disclosed in note 13 to the financial statements. In our opinion the provision of these services has not impaired our independence.

PricewaterhouseCoopers
Chartered Accountants

PK Merrett
Partner

Sydney
26 September 2002

Shareholder Information

A. Spread of Equity Security Holdings (as at 28 June 2002)

	Ordinary shares	
	Shares	Options
1-1,000	52	13
1,001-5,000	2,671	4,287
5,001-10,000	1,931	667
10,001- 100,000	1,342	475
100,000 and over	45	23
	6,041	**5,465**

B. Equity Security Holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities as at 28 June 2002 are listed below:

	Ordinary shares	
Name	Number held	Percentage of issued shares (%)
Challenger Life Limited	4,000,000	5.00
BMG Finance Pty Ltd	1,059,468	1.32
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
Alimoc Pty Ltd	765,000	0.96
National Nominees Limited	628,500	0.79
Thelma Joan Martin-Weber	600,000	0.75
Bond Street Custodians Limited	506,000	0.63
James Gourdon Robertson and Adrienne Grant Robertson	399,935	0.50
Tonita Pty Limited	350,000	0.44
Colvic Pty Limited	317,599	0.40
John Anthony Nolan	300,000	0.37
TDH Investments Pty Limited	300,000	0.37
Robin Elizabeth White	260,000	0.32
Nicholas Kemsley Gunner	250,000	0.31
Invia Custodian Pty Limited	226,000	0.28
Harry Karelis	210,000	0.26
Felix Christopher Oppen and Katherine Rae Riley	200,000	0.25
Monica Charlotte Oppen	200,000	0.25
	13,572,502	**16.96**

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.

This page has been left blank intentionally.

This page has been left blank intentionally.

This page has been left blank intentionally.

Annual Report

Innovative Investments

Office Addresses
Level 41, Aurora Place
88 Phillip Street
Sydney NSW 2000
Tel: 02 9994 7000
Fax: 02 8259 3788

Level 41, 101 Collins Street
Melbourne VIC 3000
Tel: 03 8616 1000
Fax: 03 8616 1111

Level 17, AMP Place
10 Eagle Street
Brisbane QLD 4000
Tel: 07 3218 8000
Fax: 07 3220 3132

Level 29, Allendale Square
77 St George's Terrace
Perth WA 6000
Tel: 08 9260 5777
Fax: 08 9260 5788

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

Level 26, PricewaterhouseCoopers Tower
188 Quay Street
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

Adviser Services Team: 1800 621 009

Website: www.biotechcapital.com.au

Principal Contact
Harry Karelis
Managing Director
Tel: + 61 2 9994 7058
E-mail: hkarelis@challengergroup.com

Share Registry
For shareholder queries related to change of address, dividends, holding

ASX Perpetual Registry Services
Tel: 1800 331 721
Website: www.registrars.aprl.com.au

Printed on recycled paper

CIG023-MS