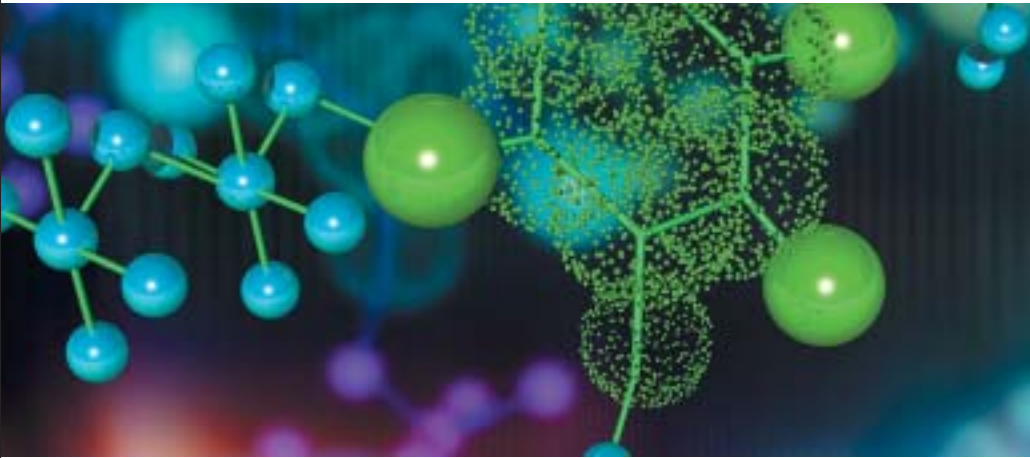




BioTech Capital Limited



Annual Report
Year ended 30 June 2003

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Chairman's report

It is my pleasure to provide you with the latest Annual Report for BioTech Capital Limited in a year that also marks the historic 50th anniversary of James Watson and Francis Crick's discovery of the double helix structure of DNA – what has been called the 'secret of life'. In the half century that has passed since this profound discovery the pace of innovation and discovery in biology has increased at an unprecedented rate.

Today the biotechnology industry touches our everyday lives in a myriad of ways from delivering better healthcare through better diagnosis and treatment, in our homes with improved consumer products and in numerous other industries. It is within this exciting arena that BioTech Capital invests, seeking to deliver superior capital growth to our shareholders over the medium to long term by taking equity positions in young companies with strong prospects for value creation through the commercialisation of cutting edge science and technology.

Performance

At the time of writing the share price of BioTech Capital has been experiencing some recent strength. This trend appears to have been driven by the latest investment activity of the Fund and some recent improved sentiment towards the sector. Our first investment in a listed company has given market participants a reference point to the value in the BioTech Capital portfolio.

Additionally the investments have reduced the percentage of cash left in the Fund and any 'cash discount' that may have been present.

Review

Against a setting of global uncertainty, stagnant major economies, and the constant threat of terrorism and war the financial markets have had a challenging time during much of 2002/2003. For the biotechnology industry this backdrop was overlaid with a number of product disappointments and clinical failures, a decline in pharmaceutical partnerships and a scarcity of public market equity financing.

In the cyclical history of the biotech market this down-cycle has been severe and prolonged following on from an extreme peak during 1999 and 2000. For much of the period in review it seemed investors focused only on disappointments and largely ignored successes.

In the face of this adversity, however, the biotechnology industry has demonstrated strength, flexibility and resilience. Companies surviving this downturn are leaner and more sharply focusing their spending on activities that support nearer term profitable commercial opportunities. They are also refining business models on core competencies and partnering more intelligently.

In this difficult period the companies in the BioTech Capital portfolio have continued to make significant progress that should add value for investors in the medium term. Scientific milestones have been attained, revenue growth achieved and partnerships consummated.

While the scarcity of equity capital available for biotechnology companies was a challenge for cash-starved companies it was an opportunity for those investors with cash reserves to obtain much more attractive entry valuations for the premium quality investment opportunities. This improves the likelihood of superior capital appreciation over the long term.

We have recently made additional investments into two such companies on favourable terms for BioTech Capital shareholders. This takes the number of companies in the portfolio to eight, representing approximately 70% of the Fund's assets.

We are continually assessing new opportunities for investment and will add to the portfolio when those companies meet our stringent criteria for investment including innovative technology, commercial applications, appropriate management and favourable competitive positioning via a defensible intellectual property estate and trade secrets. The Fund is also following the principle of diversification in its investment activity to give shareholders the benefits of a targeted level of return with a lower risk profile.

With a reputation as one of the leading specialist providers of capital for the sector and a network of contacts within the global life sciences industry we are receiving deal flow that includes most of the opportunities available in the Australian market. We would expect to make additional investments in two or more companies over the next 12 months.

Outlook

While the capital markets have been extremely challenging for biotechnology companies, there is much reason for optimism for the sector and we believe the best days of the industry are ahead of us, not behind. Fundamentally, the industry has solid underpinnings and is continuing to deliver on its promise.

Companies in the biotechnology community are demonstrating their capacity to discover, develop and sell new life-saving medicines for human disease. Despite a drop in market capitalisation for the industry in 2002 from 2001 more new biotech drug and vaccine approvals were received than ever before.

There are more profitable biotech companies. In the USA, big biotech companies such as Amgen and Genentech are valued higher than big pharmaceutical companies such as Bayer and Schering AG.

Importantly, sentiment appears to be improving towards the sector with a significant rise in the NASDAQ Biotechnology Index over the past few months. A number of novel drugs have received FDA approval in the first half of 2003 and some positive results are emerging from drugs in development. This activity is luring investors back into the sector and may lead to an opening of the IPO window in the next 12 months.

BioTech Capital is actively working with portfolio companies to ensure they are in a position to benefit from the commencement of such activity. Several of the companies in the portfolio are attractive IPO candidates and should be in a position to list at the appropriate time, crystallising value for BioTech Capital shareholders.

I thank you for your support as shareholders and look forward to announcing new investments, continued strong progress with existing portfolio companies and potential exits of investments over the next 12 months.



Bill Ireland
Chairman
BioTech Capital Ltd

Overview

Investment objectives

BioTech Capital's objective is to provide shareholders with a high level of capital growth over the medium to long term through exposure to high quality opportunities in the Australian biotechnology/life-sciences area. The majority of these investments will be in private/unlisted companies.

Earnings background

The net loss after tax for the period ending 30 June 2003 totalled \$2,699.

Net Tangible Asset backing

The audited Net Tangible Asset (NTA) backing per share as at the date of this report equated to 48.6 cents. The breakdown of this NTA follows:

Company	Invested cost \$	Cents per share	% of total funds	% ownership
Proteome Systems	5,375,000	6.72	13.80	2.70
XRT ¹	5,000,000	6.25	12.84	45.00
Xenome	3,500,000	4.37	8.99	21.60
C3	3,094,101	3.87	7.94	19.00
Stem Cell Sciences	3,000,000	3.75	7.71	14.60
Biocomm*	3,000,000	3.75	7.71	24.00
Pacific Knowledge Systems	2,197,574	2.75	5.64	18.30
Alchemia ²	2,000,000	2.50	5.14	4.68
Net Cash	11,763,477	14.68	30.23	
Total	38,930,152	48.64	100.00	

* The investment in Biocomm Services Pty Limited is initially \$100,000, with a commitment to invest a total of \$3 million.

Dividends

No dividends have been declared for the period. The policy of the company is to pay out dividends from the realised gains of underlying investments. There can be no guarantee on the timing of the exit from our investments and therefore no dividends can be reliably forecast for the next 12 months given the inherent uncertainty in financial markets.

¹ XRT: % ownership is approximate assuming conversion of note.

² Alchemia: % ownership will range from 4.68% to 4.75% depending on milestones achieved and level of options issued.

Website

We 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.

Managing Director's report

BioTech Capital Ltd (BTC) listed on the Australian Stock Exchange on 29 August 2000 and in that time has developed into one of Australia's leading life-science investors. It is a specialist investment vehicle aimed at both individual and institutional investors who wish to gain exposure to the premium quality investment opportunities in the life sciences sector via a diversified portfolio managed by a team focused on life sciences investment.

BioTech Capital considers investment opportunities across the spectrum of life science companies from early to late stage private companies to private investments in public entities (PIPEs). While the primary investment focus is on unlisted investment opportunities, when sufficiently attractive investment propositions in listed bioscience companies are available the Fund will consider them for investment, particularly when we are able to invest on terms that are more favourable than our shareholders could normally access themselves.

The Fund is building a quality portfolio of investments diversified across stage of investment and industry sub-sectors. Because our sole focus is in life science investing, we are continually building global networks that span scientific, clinical, operational and investment circles appropriate to our industry. These networks provide considerable benefits from an in depth understanding of industry

characteristics and a superior ability to source relevant information and contacts to assist in the growth of our portfolio companies.

Market review

Globally, the worlds investment markets often follow the lead of the US economy. Due to political uncertainty associated with the war on terrorism and a general slump in the economy following the mania of 1999 and 2000 the impact on markets has been negative worldwide for much of the period under review.

Restoration of investor confidence in owning stocks has been a slow process. Biotechnology company financing via the public equity markets historically has been characterised by quite extreme cycles and causes many failures during down-cycles when cash-starved companies with capital-intensive R&D engines are unable to access new capital. In the earlier part of the period under review investors seemed to focus mainly on negative news flow for the biotechnology industry such as the news surrounding the ImClone Systems scandal, clinical failures, company bankruptcies and a raft of announcements relating to the downsizing of employee workforces within biotechnology companies.

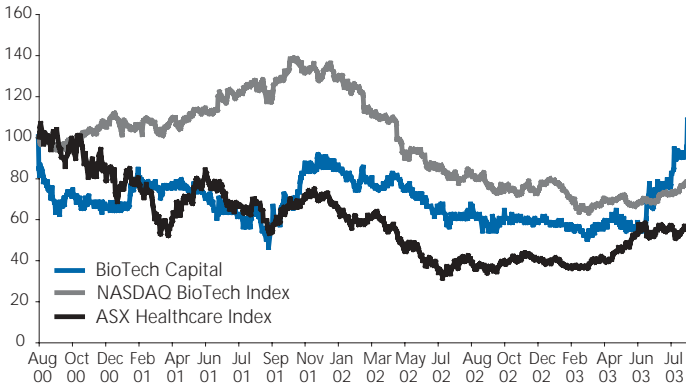
Also, earlier in the period the very important Food and Drug Administration (FDA) organisation was without a leader and there was a lack of confidence from the market in the organisations ability to deliver timely responses to new drug applications. The result of this confluence of factors was a particularly

difficult time for the biotechnology industry and the Initial Public Offering (IPO) window closed. Many biotechnology companies that were preparing to float on the market simply have had to shelve plans until sentiment improves. This also impacted on some of BioTech Capital's portfolio companies who have delayed their listing intentions. However these companies are now moving towards re-activating these plans.

While the market downturn of 2001 and 2002 temporarily slowed the global expansion of the biotechnology industry, the industry has demonstrated its capacity to endure and meet the challenges head on. Innovation has continued to accelerate and the industry is proving it can translate scientific advances into commercial ventures. Companies left standing are those that have proved themselves most adroit at seizing opportunities, becoming leaner and more productive, adapting business models and strategy and partnering with other groups.

These networks of alliances allow each company to contribute essential elements that are core competencies and develop high-value products more cost-effectively and share in the financial rewards of success. The market has seemed to recognize this in the most recent couple of quarters as reflected in the strong performance in the NASDAQ biotech index in Chart 1.

Chart 1 – Performance



Several drivers appear to be responsible for the recent resurgence in stock price performance in the biotech industry. Investors have more confidence in the FDA's ability to give more timely approval to new drug applications with the appointment of a new Commissioner in late 2002. There have been

a number of significant FDA approvals during the first half of 2003 for biotechnology companies in the US, which have served to stimulate investor interest, which then flows on to the broader biotechnology market globally.

Drug	Sponsor	Disease indication	Date approved
Amevive	Biogen	Moderate to severe plaque psoriasis	Jan 2003
Velcade	Millennium	Multiple Myeloma	May 2003
FluMist	MedImmune	Influenza vaccine	June 2003
Xolair	Genentech/Novartis/Tanox	Severe Asthma	June 2003

The impact of approvals or positive results on the market capitalisation of companies in the biotechnology industry can be enormous. At this year's American Society of Clinical Oncology meeting Genentech announced positive results for its monoclonal antibody, Avastin, in patients with colorectal cancer and saw its stock price increase by 50%, adding

over \$12 billion US dollars to its market capitalisation in a single day.

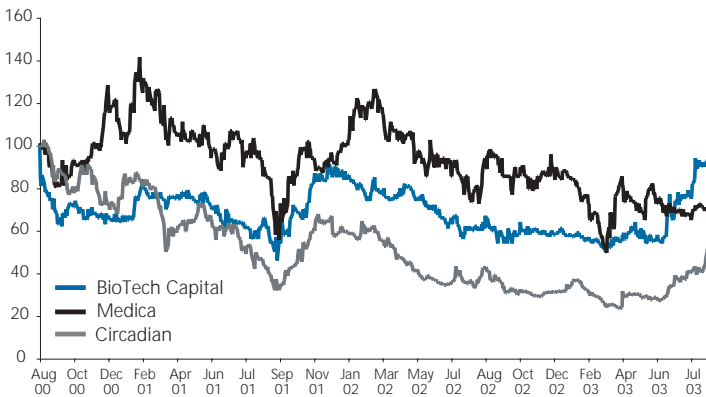
Revenue growth for the industry has continued to grow at double-digit rates in 2002 while market capitalisations fell substantially making valuations attractive for long-term investors.

Performance

The share price of BioTech Capital has strengthened considerably in absolute terms over recent months and has mirrored the recent strong performance in the NASDAQ Biotech Index while strongly outperforming

the ASX Healthcare Index as can be seen in Chart 1. The share price of BioTech Capital has also outperformed when compared to its closest peers listed on the Australian Stock Exchange as shown in Chart 2.

Chart 2 – Performance

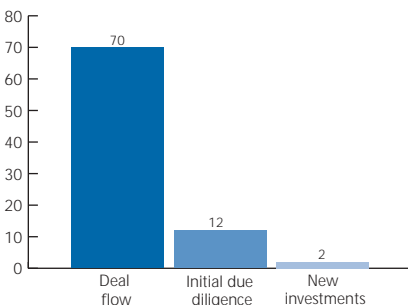


Investment activity

BioTech Capital's network has continued to provide a rich source of deal flow for the investment team to review. Over the course of the year 70 opportunities were reviewed and new investments were made in two companies – Clinical Cell Culture and Stem Cell Sciences. The Fund also made a follow-on investment in existing portfolio company XRT.

Clinical Cell Culture (C3) is a publicly listed biomedical company with core technology and expertise in tissue engineering. The company has developed and is distributing tissue engineered cellular products for autologous cell replacement. These proprietary skin replacement products offer physicians a range of options for the treatment of burns, other epidermal trauma, previous scarring, chronic wounds and for cosmetic procedures.

Deal flow



In Australia the technology was used to treat victims from the Bali bombing tragedy. Well in excess of 1,300 people have now been treated with C3 technology. The C3 investment was the first time that BioTech Capital has made an investment into a publicly listed company, a transaction commonly known as a PIPE (Private Investment into a Public Entity).

When fresh equity capital is scarce and markets stagnate PIPES can offer an attractive entry point into premium quality companies. We believe this was the case in relation to C3. The innovativeness and maturity of the technology as well as the depth of the pipeline of products in development were available at a price below that of deals reviewed in the private sector.

BioTech Capital led a syndicate of investors with a \$3 million investment for a round that raised \$7 million of new capital into C3. The price was at a discount to the market price and with a series of options attached – both features unavailable to individual investors. The Funds will be used to begin the distribution of C3 products into larger markets outside of Australia such as Europe.

Stem Cell Sciences is a company conducting research on stem cells for immediate application in drug and gene discovery and longer-term applications in regenerative medical therapies. It is a leader in the growth, differentiation and purification of stem cells. These cell technologies provide a range of highly purified cell types, such as neurons and cardiac cells, for gene and drug discovery. It has exclusive access to intellectual property generated by the Institute for Stem Cell Research at the University of Edinburgh, Scotland. It is also part of a joint venture in Kobe, Japan.

SCS technologies have already been licensed to world leading pharmaceutical companies such as Aventis and Glaxo Smith Kline, as well as other biopharmaceutical companies.

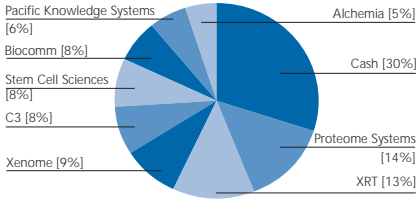
The field of stem cell research has enormous implications for the future of medicine and in the future may be used to treat such conditions as Parkinson's disease, diabetes and spinal cord injuries. BioTech Capital invested \$3 million in a total funding round of over \$7 million for the company.

We also provided follow on funding to an existing portfolio company – XRT. This investment of \$1 million was via a preferred return note which upon redemption would return \$3 million to BTC. If this note is converted to equity, BTC would emerge with a holding of approximately 45% equity in the company. XRT is in late-stage discussions with key industry partners and is exploring other partnership opportunities to exploit its intellectual property estate.

Portfolio analysis

A total of eight investments have been concluded at the time of this report comprising Alchemia, Biocomm, Pacific Knowledge Systems, Proteome Systems, Xenome, XRT and our two most recent additions Clinical Cell Culture and Stem Cell Sciences. The chart on page 11 indicates the current weighting of each investment in the portfolio. The Fund is approximately 70% invested with seven of the eight investments in the portfolio in private companies and one investment in a publicly listed stock.

Portfolio holdings



BioTech Capital has Board level representation on six of the eight portfolio companies – Biocomm, Clinical Cell Culture, Pacific Knowledge Systems, Stem Cell Sciences, Xenome and XRT.

The portfolio gives investors a broad spread of exposure to different technologies and sub-sectors as well as stages of development. Some are early stage companies still developing technologies and products while others have moved further along the development scale and are distributing product to market. This has been a conscious investment decision on behalf of the Fund in line with our original target of constructing a portfolio of 10–20 investments with diversification across technology and lifecycle.

Portfolio progress report

In general over the past 12 months the portfolio has been successful in meeting many value adding milestones, including scientific and technical achievements, revenue growth, product sales or licensing and attracting new investors.

Alchemia has been able to progress negotiations to a late stage with a large pharmaceutical company on the use of its technology on a specific project. This is great validation of the company's glycomics technology platform and its successful conclusion should have two direct outcomes. Firstly, it could act as a catalyst for a successful IPO and secondly, with its technology validated in such a way, it is in a much stronger position to complete other similar deals in other therapeutic areas using the versatility of its technology platform.

Biocomm has successfully concluded two international licensing deals demonstrating the capability of its management. They have also been reviewing a number of early stage investment opportunities and are in late stage negotiations on one such deal. BioTech Capital has the option of co-investing alongside Biocomm.

Pacific Knowledge Systems has rolled out the first application of its software platform, LabWizard to a number of pathology laboratories around Australia. Usage rates and revenue for the company are now in a strong growth trend after a slower start than expected. To continue that growth the company is developing and rolling out other applications of the platform and seeking to gain an entry point into the far more lucrative overseas markets with a reference site in Europe and/or the USA.

Proteome Systems continues to be at the leading edge of proteomics technology and

research and is leveraging off this core expertise with a number of high profile partnerships with leading companies worldwide. Proteome has been experiencing very strong growth in sales revenue.

Xenome has driven forward with its drug discovery programs and had good news this past year when it received funding from the Queensland BioCapital Fund. This will allow the company to push its lead molecule into clinical trials by Q1 2004.

Due to a difficult environment the progress of XRT has been slower than expected. As a consequence the company's strategy and business model was reviewed, restructured and refocused on a licensing business model.

Valuation

As a matter of principle, the valuation policy we adopt is the industry-standard Australian Venture Capital Association (AVCAL) guidelines. The Board have adopted a very conservative stance with regard to the valuation of investments.

Conclusion and outlook

While volatility in the sector is likely to continue, the fundamental underpinnings of the biotechnology industry are solid. The sector today is still at the beginning of a technology curve with extensive upside potential and most industry observers agree the best days for the sector are in the future, not the past. Biotechnology is expanding beyond healthcare to become a major driver of innovation in agriculture and industrial production.

Revenues for the industry have continued to grow at around 15% per annum and there are more new biotech drug products and vaccines in clinical trials than ever before, some 370 products targeting more than 200 diseases. These include heart disease, arthritis and diabetes to name a few. Six biotech drugs have each generated more than a billion US dollars in sales: Procrit (Anemia), Epogen (Anemia), Neupogen (Cancer), Intron A (Cancer, Hepatitis), Humulin (Diabetes) and Rituxan (Non-Hodgkin's lymphoma). New blockbusters expected to join the list are Avonex (Multiple Sclerosis), Enbrel (Rheumatoid arthritis) and Remicade (Rheumatoid arthritis).

An additional impetus for the bioscience industry is an emerging paradigm where the pharmaceutical industry is looking to the bioscience industry to deepen their own product pipelines and introduce new technologies. This phenomenon has developed due to the pharmaceutical industry needing to boost its R&D productivity. R&D costs for the pharmaceutical industry have climbed at a compound annual rate of some 7%–8% while the number of new chemical entities has been relatively stagnant. Pressure for the industry is amplified by the fact that many of their top-selling drugs are nearing the end of patent life. Some \$36 billion of drug sales will be exposed to generic competition over the next five years resulting in margin pressure for the pharmaceutical industry. To address this problem in the future, despite their huge R&D spending, big pharmaceutical companies are expecting 50% of revenue to come from product and technology acquisitions, the vast

majority expected to be sourced from the bioscience industry.

The recent drug approvals from the FDA along with positive clinical data announcements has revived buying in the sector and may very likely act as catalysts for an opening of the IPO window over the next few quarters.

Should this occur several of our existing portfolio companies are in a position to list on the public markets. We believe that should this happen over the next 12 months, significant opportunities for revaluation of the portfolio will result. In addition we are working with existing portfolio companies to help them achieve milestones and create value for shareholders.

The outlook for future investment opportunities remains strong with our investment team continuing to review investment opportunities. We would expect to conclude new investments over the course of the next 12 months. It is our goal to continue to build a portfolio of companies that provides the opportunity to create significant wealth for our shareholders over the medium to long term.

Investment approach and process

BioTech Capital applies a rigorous and analytical framework to the investment process. Each potential investment is evaluated using a tailored investment strategy relevant to the fundamentals of that market segment. Overlying each individual investment is a layer of analysis related to the construction of the portfolio to enhance the risk to return position of the Fund.

The Fund is looking to make equity investments in companies with advanced life science technologies, an executable corridor to commercial application, large market potential, strong intellectual property, excellent management and favourable competitive positioning. Opportunities will be sought across the spectrum from early to late-stage.

Deal origination and screening

BioTech Capital currently receives approximately 70 deals per year from within Australia.

The vast majority of deals received are rejected because they do not meet our strict investment criteria, however all are recorded on a deal log creating a database of intelligence on emerging companies, products and their origin.

The focus of the initial evaluation is on the intellectual property, science and technology, management and target market. BioTech Capital wants to ensure that there is valuable science and technology at the core of the company that differentiates it from others in the market. This may involve improvements in key metrics such as quality, speed and cost, or the ability to create a new market via a novel product.

In addition, the technology should be defensible by patent or other proprietary protection. The management should have the relevant expertise and the target market should be substantial or growing rapidly. At this point, if the opportunity seems attractive, further information and a response to a series of questions about the business are requested.

BioTech Capital also leverages off its network in an informal way at this time to garner a perspective on the people involved.

Does the company fit in the portfolio?

For a company to progress to the next stage in the investment process it must first fit within the desired structure of the portfolio. While the Fund will be focused on the rapidly growing life science industry, diversification will be a cornerstone of our investment philosophy. Diversification will be achieved by building a portfolio of companies that are at various stages of development and across a carefully selected group of technologies or product areas.

The ability to invest across the lifecycle from early to late-stage, positions the Fund to participate in the most compelling investment opportunities available. It also allows BioTech Capital to take a more active role in the development of investee companies, providing strategic direction, accelerating the companies' evolution and positioning the company for the best valuation at exit.

Importantly, a portfolio of companies at different stages of development also serves to reduce the likelihood that a single period of downturn in the public markets will dramatically impact the Funds return. Conversely, it also positions the Fund to take advantage of any periods of optimism in the market for exits.

Diversifying across technology segments reduces the vulnerability of the Fund to adverse technology obsolescence events and allows us to take advantage of shifts in focus within markets.

Typically, we do not invest in pre-seed opportunities unless we are convinced the technology or product is extremely compelling. In general we don't believe the risk/reward profile is attractive enough to justify the relatively high level of time commitment for such a small portion of the Fund's investment capital.

Company review

If an investment opportunity is considered appropriate for further review the management is invited to present to BioTech Capital. At this time preliminary views from experts in the field are sought in relation to the science and technology proposal.

If BioTech Capital is satisfied with the information it has gathered at this point the investment analysis examines all aspects of the opportunity at a more detailed level. This includes not only a review of scientific aspects but also legal, financial and business strategy issues.

Each market segment within the life science industry is unique; therefore BioTech Capital examines each opportunity using a customised investment strategy incorporating special considerations related to each market segment, stage of development and likely exit method.

In selecting investments within different market segments, BioTech Capital gives emphasis to different criteria. Examples of the sort of attributes important in the different market segments are:

Biopharmaceuticals

- Large unmet, or poorly met medical need

- Advantageous development profile

- Proprietary technology platform

- Early evidence of validation

Drug discovery innovators

- Technology targeting research bottlenecks

- Strong patent position

- Proof of principle

- Validation through corporate partners

Medical devices

- Devices that are a clear evolutionary step ahead of the current gold standard

- High margin products

- Minimal regulatory challenges

- Eligible for third party payer reimbursement

Deal engineering

At this point, should BioTech Capital wish to proceed, a term sheet is negotiated.

The negotiations and term sheet will envelop such matters as:

- The level of investment by BioTech Capital

- The total amount of funding to be raised by the investee company

- Pre-investment valuation of the company

- The syndicate structure

- Structuring the deal to align the interests of shareholders and management

- Secure valuation protection

- Negotiate shareholder agreements

- Investing via the most appropriate structure and security

We prefer to act as the lead investor alongside other institutional investment groups. Ideally, most deals raise sufficient funds to last at least three years.

Deal due diligence

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 8–12 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.

Rigorous scientific analysis

Scientific and technological issues form the core value proposition of many companies. Many of the companies in which the Fund will invest are developing products or technologies that are pushing current scientific boundaries outwards. This generally means that in certain cases only luminaries in the field can truly examine the science at its most specific level.

BioTech Capital works with the most relevant member of the scientific advisory panel and other members of its network to identify those experts in the field globally from whom to commission a rigorous scientific evaluation and technical paper.

The types of issues examined include:

- The validity of the scientific proposition or technology

- The practicality of the scientific strategy

- The feasibility of advancing the science into a value proposition within a given timeline

- The optimum future scientific strategy

- Identify other technologies that may be emerging as competition

Intellectual property

BioTech Capital is aware of the critical importance of intellectual property for a sustainable competitive position within the life science industry and accordingly places an emphasis on analysing the intellectual property position of the company. The origins and ownership, prior art and related patents are examined to form a view as to the robustness of the intellectual property to form a foundation for a competitive positioning within the market. Specialist patent attorneys conduct this analysis on our behalf.

Human capital

By investing in a company we are essentially investing in the team behind the company and their ability to develop the business, adapt to inevitable changes in the environment and grow. We are company builders that partner with our entrepreneurs to build world-class companies. As such we

must be comfortable that the people behind the company have the unique blend of characteristics necessary for success. We give attention to such key people as the scientific founders, management, board and other key advisors. As well as our own direct assessments we follow up through personal references and a network of contacts spanning the academic and business realms.

Partnership positioning

At some stage in their development many bioscience companies will need to form some sort of relationship with other firms to continue to grow. Indeed often this type of activity will pivot the trajectory of valuation upward, due to synergies and a value added product offering. The team investigates the dynamics of the marketplace thoroughly to determine the opportunities in the future for these types of deals to either bring cash flow to the company or add value to the enterprise through a superior service or product offering. BioTech Capital uses its extensive network and commercial databases to assess the potential investee's position and opportunities in the global market.

Final deal approval

The Investment Committee reviews all prior research and discusses the merits of the investment with the team involved in the analysis as well as any consultants and advisors related to the deal.

Post-investment monitoring

Investments are actively monitored post investment through Board participation when appropriate and always through active interaction with management. This ensures BioTech Capital is aware of issues as they arise and can use its expertise and networks to address the issues to keep the company on track to achieve its stated milestones.

Board of directors and investment team

William Ireland

Bill Ireland is the Managing Director of Mariner Financial. Prior to this he was Managing Director and the principal shareholder of the listed company, Challenger International Limited (Challenger) which he established in 1986.

Mr Ireland has extensive experience in financial markets with a background in trading shares and options and was instrumental in developing a series of innovative financial products for the Australian market.

Alastair Davidson

Alastair Davidson is Managing Director of Aurora Funds Management based in Sydney. Prior to this he has held executive positions in the banking and financial services industry for more than 9 years in the UK, USA and Australia. This included Challenger for 4 years and 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.

Irene Yun Lien Lee

Irene Lee has held senior positions in the investment banking and funds management industry 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 companies including Record Investments, QBE Insurance and Ten Network Holdings Ltd, all listed on the ASX.

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.

Harry Karelis

Harry Karelis is the founder and Managing Director of BioTech Capital. 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.

Dr Julia Hill

Julia is a Senior Investment Manager with BioTech Capital and has a background in biological sciences gaining a PhD while working for CSIRO in Sydney. She subsequently spent several years in the USA and Ireland as a post-doctoral scientist in molecular biology and biochemistry. Upon returning to Australia, Julia completed an MBA at Melbourne Business School.

In recent years Julia has been involved in the commercialisation of biotechnology. She has held a commercial position within CSIRO, a senior policy adviser (biotechnology) role with the Victorian State Government and was Chief Operating Officer of a small Australian biotechnology company.

Julia's principal responsibilities include originating investment opportunities, research, assessment, due diligence and valuation of investment opportunities.

Andrew Blackmore

Andrew Blackmore is an Investment Manager with BioTech Capital whose responsibilities include originating investment opportunities, research, assessment, due diligence and valuation of investment opportunities. He has a background as an analyst in the technology and finance industries, where his prior experience included industry, market, technology and company research, analysis and valuation.

He holds a Bachelors degree in Economics from the University of Otago (New Zealand) and a Masters degree from the University of Sydney majoring in Economics.

Scientific advisors

Overview

BioTech Capital has engaged Foursight Associates as their 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 five 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 schistosomiasis 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 former Chairman of Cochlear Limited (the Company which developed and manufactures the 'bionic ear'). He is Professor Emeritus of the University of Melbourne.

Portfolio investments

Alchemia Pty Ltd

www.alchemia.com.au

Business type	Combinatorial chemistry, carbohydrates
Location	Brisbane, Australia; Redwood City, California USA
Date of first investment	Feb 2001
Board seat	No
Stage of investment	Expansion
Funds invested	A\$2,000,000
Equity ownership	4.7%
Breakeven valuation	A\$42.7 million
Current valuation	A\$42.7 million

Background

Alchemia is a biotechnology company with core expertise in the chemistry of Carbohydrates, a field more recently called Glycomics. Carbohydrates, which include sugars and starches are found on the surface of every cell in our body. They play a critical role in the biochemical processes of human health. Alchemia's technology makes it possible to explore, develop and exploit the potential of carbohydrates in drug discovery.

Achievements over the past

12 months

- Two key patents which underpin Alchemia's carbohydrate-based drug discovery platform were granted in the US, Europe and Australia. These patents cover and secure the key aspects of Alchemia's technology for the discovery and large-scale production of new carbohydrate-based therapeutics. The granting of these patents adds to an existing portfolio of patents and a suite of other patent applications in the pipeline.
- Alchemia has progressed negotiations with offshore pharmaceutical companies to a late stage with regard to licensing certain molecules as potential therapeutic agents. The successful conclusion of these discussions should act as a catalyst for an IPO at valuations higher than those paid by BioTech Capital.

Key points

- Compelling technology platform with unique attributes
- Alliance with Dow Chemical a major positive
- Potential drug and nutraceutical compounds identified
- 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 invested	A\$3,000,000
Equity ownership	24%
Breakeven valuation	A\$12.5 million
Current valuation	A\$12.5 million

Background

Biocomm Ltd (Biocomm) can best be described as an intellectual property management company. Biocomm is a Melbourne-based company whose primary aim is to improve the effectiveness with which academic research in medical biotechnology is commercialised.

Members of the Biocomm network 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.

Achievements over the past

12 months

- Biocomm brokered an International Licensing deal for Monash for a cancer pain treatment. Biocomm identified British pharmaceutical company, RiboTargets as a logical partner to take the compound alphadolone further down the drug development path and executed the deal.
- Biocomm also completed a \$1 million licensing deal between UK biotechnology company Onyx and the Bernard O'Brien Institute of Microsurgery. The joint research program will involve detailed analysis of the molecular changes in tumors at different stages of disease.
- Dr David Chiswell joined the Biocomm International Advisory Panel. Dr Chiswell has had a long and distinguished career and medical research and the pharmaceutical industry. He was a founder of Cambridge Antibody Technology (CAT), board member from 1995 and CEO from 1996.

Key points

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

New investment

Clinical Cell Culture Ltd

www.clinicalcellculture.com

Business type	Tissue engineering
Location	Perth, Australia
Date of first investment	August 2003
Board seat	Yes
Stage of investment	Expansion
Funds invested	A\$3,094,000
Equity ownership	19%
Breakeven valuation	A\$16.3 million
Current valuation	A\$46.5 million

Background

Clinical Cell Culture (C3) is an ASX-listed tissue engineering company. The company has a pipeline of products to treat burns, wounds and other defects requiring skin replacement. The company's lead products are CellSpray®, CellSpray®XP and Recell®. These products have significant advantages over existing competing products including rapid culturing time and ease of use which result in an improved outcome for the patient. C3 also has other products in development for the large chronic wounds market, sterility testing and continuing improvements to its existing products.

Achievements over the past

12 months

- Raised \$7 million in new capital for expansion into Europe. BTC lead the round with a \$3 million investment
- Contracted Ventrex Inc., USA to manufacture ReCell®. Ventrex has approvals to manufacture medical devices from all major regulatory bodies around the world.
- Recruited key European staff
- Awarded BIF grant to research methods for stimulating skin cells to multiply without the use of any non-autologous products (ie. material taken from any source other than the patient's own body).

Key points

- Strong management with appropriate European links
- Large potential markets
- Attractive valuation entry point
- Low technical risk – technology has been validated by its use in over 1,300 patients to date
- Rich pipeline of products and research projects
- Sufficient financial resources to execute business plan

Pacific Knowledge Systems Pty Ltd

www.pks.com.au

Business type	Informatics, pathology industry
Location	Sydney, Australia
Date of first investment	Dec 2000
Board seat	Yes
Stage of investment	Early
Funds invested	A\$2,197,574
Equity ownership	18.3%
Breakeven valuation	A\$12 million
Current valuation	A\$12 million

Background

Pacific Knowledge Systems (PKS) has commercialised technology known as Ripple-Down-Rules into a product specifically designed for the pathology industry known as LabWizard™. 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.

Achievements over the past

12 months

- Usage rates of LabWizard have displayed strong growth and revenues have grown correspondingly
- PKS has secured Gribbles, the third largest pathology player in Australia, as a new client and is rolling out the product across the Gribbles network.
- The business is approaching cash-flow breakeven from its domestic operations
- Applications of the technology have begun to be rolled out into new markets – agriculture and veterinary

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
- Corporate restructure now reaping benefits
- Pursuing offshore reference sites to expand market

Proteome Systems Ltd

www.proteomesystems.com

Business type	Proteomics tools, informatics, discovery
Location	Sydney, Australia; Boston, USA; Tokyo, Japan
Date of first Investment	Sep 2000
Board seat	No
Stage of investment	Late
Funds invested	A\$5,375,000
Equity ownership	2.7%
Breakeven valuation	A\$199 million
Current valuation	A\$417 million

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 which is available as a total solutions package, ProteomIQ.

These technologies, integrated by a proprietary and sophisticated bioinformatics system, BioinformatIQ, 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, Nestle and the Cystic Fibrosis Foundation (USA).

Achievements over the past

12 months

- Proteome Systems and CSIRO signed a deal to develop powerful statistical tools for analysis of protein expression data.
- Proteome Systems and Shimadzu BioTech develop the ChIP Chemical Inkjet Printer. ChIP is a leading edge technology platform for micro-scale on-membrane protein identification and characterisation.
- Proteome Systems and Charles River Laboratories open contract laboratory dedicated to proteomic research services. The laboratory will perform fee-for-service contract research to pharmaceutical and biotechnology clients around the world.
- Proteome Systems raised capital at a price 92% higher than that paid by BioTech Capital.

Key points

- Very strong management and scientific team
- World leaders in proteomics – especially glycoproteins
- Strong corporate collaborations
- Strong intellectual property position
- Discovery activities provide significant upside

New investment

Stem Cell Sciences Ltd

www.stemcellsciences.com.au

Business type	Stem Cells/ Regenerative medicine
Location	Australia, UK, Japan
Date of first investment	August 2003
Board seat	Yes
Stage of investment	Expansion
Funds invested	A\$3,000,000
Equity ownership	14.6%
Valuation at BTC round	A\$20.5 million
Current valuation	A\$20.5 million

Background

SCS will focus on growing its core expertise in stem cell culture, differentiation and selection of purified cell types for drug discovery and optimization services to the pharmaceutical sector. SCS' longer term plans will apply these same core technologies to delivery of cell-based regenerative therapies for diseases such as Parkinson's and diabetes. SCS technologies have already been licensed to world leading pharmaceutical companies such as Aventis and Glaxo Smith Kline, as well as other biopharmaceutical companies.

Achievements over the past

12 months

- Raised sufficient funds for three years
- Attracted a very high profile chairman to the company, Dr. Michael Dexter (former CEO of the Wellcome Trust)
- Established new research collaborations with the RIKEN Center for Developmental Biology via its joint venture operations in Kobe, Japan.

Key points

- Collaborative R&D programs with world leading consortium of stem cell researchers
- Novel technology
- Strong intellectual property estate
- Commercial validation of technology via big pharma deals
- Attractive valuation entry point

Xenome

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	21.6%
Breakeven valuation	A\$16.2 million
Current valuation	A\$16.2 million

Background

Xenome is a 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.

Achievements over the past

12 months

- Xenome and TheraSci enter Nervous System Drug Discovery Collaboration.
- Xenome was awarded a Biotechnology Innovation Fund (BIF) grant of \$250,000.
- Xenome was granted patent rights in Europe covering the rho family of coneshell venom derived peptides providing additional protection to Xenome's core intellectual property.
- Researchers at the University of California and University of Queensland confirmed the therapeutic potential of Xenome's lead drug candidate in animal models of neuropathic pain.
- New \$6 million dollar investment round into Xenome.

Key points

- Operating in a novel area – conotoxins and one of only a very small number of groups operating in this area
- Compound library is very prospective for drug candidates

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 (additional A\$1,000,000 invested subsequently via convertible note)
Equity ownership	approx 45% (assuming conversion of notes)
Breakeven valuation	A\$11.1million (assuming conversion of notes)
Current valuation	A\$11.1 million

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.

Achievements over the past

12 months

- The company has solidified a strong patent estate and has developed two major product lines known as XuM (X-Ray ultra-microscopy) and PCX.
- A relationship with a leading North American semiconductor manufacturer has continued over the past 12 months with a view to evaluating and developing specific tools for their use.
- Early sales of XRT products have been generated via the global distribution agreement in place with US-based EDAX Inc.

Key points

- Strong intellectual property position with excellent pedigree (CSIRO, Nature)
- Very large markets
- Low technical risk – technology has been validated
- Restructure of the business towards an IP licensing model has significantly reduced cash burn rate
- Recapitalisation expected over next 6–12 months

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Financial report

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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 32–36.

Directors' report

The directors of BioTech Capital Limited present their report on the financial statements for the year ended 30 June 2003.

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)
Harry Karelis
Irene Yun Lien Lee
Antony Basten
Alastair John Davidson

Principal activities

The principal continuing activities of the company consist of investing in entities operating in the biotechnology/life-science sectors. The company is a company registered under the Pooled Development Funds Act 1992.

The following investments have been made during the year:

November 2002 A further \$1.0 million was invested in convertible notes in XRT Limited, a world leader in the practical application of X-ray phase contrast imaging. These notes carry a three times preferred return upon redemption. Should the notes be converted to equity, the company will increase its interest from approximately 20% to approximately 45%.

January 2003 A further \$123,000 was invested in convertible notes in Pacific Knowledge Systems, a company focussed on providing health informatics technologies to address the worldwide clinical testing market.

February 2003 \$100,000 was invested in Biocomm Services Pty Limited with a commitment to invest a total of \$3 million. The company provides internationally recognised, high quality business development services to commercialise life sciences research from its academic members.

During the year, the directors announced that the company would invest approximately \$3 million in ASX-listed tissue engineering company Clinical Cell Culture Ltd (C3). The company develops and distributes tissue-engineered cellular products for autologous skin replacement. This investment was subsequently approved by C3 shareholders on 8 August 2003.

Post financial year. In July 2003, the company completed a \$3 million investment in Stem Cell Sciences, a global leader in the field of stem cells research. This provides the company with a 14.6% interest and a board seat.

Review of operations and results

Revenues from ordinary activities for the year ended 30 June 2003 was down 14% to \$1,038,587 (2002: \$1,206,943). Operating profit after income tax for the same period was down 103% to a loss of \$2,699 (2002: \$86,096 profit). There were no extraordinary items during the year.

Dividends

No dividends were declared during the year (2002: \$nil).

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 Mariner Financial Ltd.	Executive Director and Chairman. Non-executive (post 30/6/03)	–	50,000
AJ Davidson	B.Ec(Hons) ACA. Has held executive positions in the banking and financial services for almost 20 years in the UK, USA and Australia.	Managing Director, Aurora Funds Management Executive Director/ Non-executive Director (post 18/02/03)	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.	Executive Director	300,000	526,000
I Lee	BA, Barrister at law from Gray's Inn London. Has held senior positions in the investment banking and funds management industry in the UK, USA and Australia. Is a non executive director of a number of listed and unlisted companies including QBE Insurance Group, TEN Network and Record Investments. Member of the Takeovers Panel and Trustee of Art Gallery of New South Wales.	Non-executive Director	40,000	220,000

Director	Experience	Special responsibilities	Particulars of directors interest	
			Ordinary shares	Options
A Basten	Professor, AO, 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.	Non-executive Director	10,000	–

Meetings of Directors

The number of meetings of the company's board of directors held for the year ended 30 June 2003, and the number of meetings attended by each director were:

	Number of meetings whilst person a Director	Number of meetings attended
WEB Ireland	9	4
AJ Davidson	9	9
H Karelis	9	9
I Lee	9	9
A Basten	9	9

Directors' remuneration

Non-executive Directors of BioTech Capital Limited

	Director's base fee \$	Total \$
I Lee	20,000	20,000
A Basten	20,000	20,000
AJ Davidson (from 18/02/2003)	7,500	7,500

Executive Directors of BioTech Capital Limited

	Director's base fee \$	Total \$
WEB Ireland	–	–
AJ Davidson (until 18/02/2003)	–	–
H Karelis	–	–

Insurance of officers

During the financial year, the company paid a premium of \$18,000 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

The following matters have arisen since 30 June 2003:

(a) The completion of a \$3 million investment in Stem Cell Sciences Ltd,

(b) The completion of a \$3.094 million investment in Clinical Cell Culture Ltd,

(c) The Board of directors have resolved to proceed with the issue of bonus options to shareholders registered as at 10 October 2003.

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

At the date of this report, BioTech Capital Limited had 41,300,000 unissued ordinary shares under option, all of which 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 Act.

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



AJ Davidson
Sydney
Director
12 September 2003

Corporate governance

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 consist of five directors. Of these, four directors are 'independent' of the Challenger Financial Services Group (formerly Challenger International Limited), 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 three, 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 Act, 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 interest 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.

During the year, the Chairman, Mr Ireland and the Managing Director, Mr Karelis, as directors of Challenger International Limited, received no director's fees. A third director, Alastair Davidson received no directors fees during the period which he was executive director.

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, 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.

As yet, the directors have not yet established any such committees.

The Board as a whole is involved in all committee matters involving audit, remuneration and nomination.

The Board also intends to introduce policies in order to review the performance of Directors including tenure.

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.

Statement of financial performance

for the year ended 30 June 2003

	Notes	2003 \$'000	2002 \$'000
Revenue from ordinary activities	2	1,039	1,207
Management fees		(782)	(797)
Other expenses from ordinary activities		(261)	(295)
		(1,043)	(1,092)
Profit/(loss) from ordinary activities before related income tax expense		(4)	115
Income tax (expense)/benefit	3	1	(29)
Profit/(loss) from ordinary activities after related income tax expense		(3)	86
Basic earnings/(loss) per share		0.00 cents	0.11 cents

The above statement of financial performance should be read in conjunction with the accompanying notes.

Statement of financial position

as at 30 June 2003

	Notes	2003 \$'000	2002 \$'000
Current assets			
Cash assets	4	21,126	22,408
Receivables	5	69	19
Deferred tax assets	3	3	3
Total current assets		21,198	22,430
Non-current assets			
Investments	6	18,173	16,950
Total non-current assets		18,173	16,950
Total assets		39,371	39,380
Current liabilities			
Payables	7	283	249
Current tax liabilities	3	2	39
Total current liabilities		285	288
Non-current liabilities			
Deferred tax liabilities		8	11
Total non-current liabilities		8	11
Total liabilities		293	299
Net assets		39,078	39,081
Equity			
Contributed equity	8	38,990	38,990
Retained profits	9	88	91
Total equity	10	39,078	39,081

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 2003

	Notes	2003 \$'000	2002 \$'000
Cash flows from operating activities			
Interest received		1,031	1,166
Other income received		–	40
Managers fees paid		(802)	(800)
Payments to suppliers		(216)	(279)
Income taxes paid		(72)	(196)
Net cash (outflow) from operating activities	11	(59)	(69)
Cash flows from investing activities			
Payments for investments		(1,223)	(5,950)
Net cash outflow from investing activities		(1,223)	(5,950)
Cash flows from financing activities			
Dividends Paid		–	(641)
Net cash inflow/(outflow) from financing activities		–	(641)
Net decrease in cash held		(1,282)	(6,660)
Cash at the beginning of the financial period		22,408	29,068
Cash at the end of the financial year	4	21,126	22,408

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2003

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 Act.

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.

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

(d) Investments

The Portfolio of investments in unlisted securities forms one class of asset which is classified as non-current, reflecting the expected holding period. The investments are initially recorded at cost and the portfolio is carried at the lower of cost and recoverable amount.

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) 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 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 2003 \$'000	Year ended 30 June 2002 \$'000
Interest	1,039	1,167
Other	–	40
	1,039	1,207

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:

	30 June 2003 \$'000	30 June 2002 \$'000
Profit from ordinary activities before income tax expense	(3)	115
Income tax calculated @25% (see note 1a)	(1)	29
Aggregate income tax expense/(benefit)	(1)	29
Aggregate income tax expense comprises:		
Current tax provision	2	39
Deferred income tax liability	–	(7)
Deferred tax asset	(3)	(3)
	(1)	29

Note 4. Current assets – cash assets

	30 June 2003 \$'000	30 June 2002 \$'000
Cash at bank and on hand	3,277	549
Bank bills	17,849	21,859
	21,126	22,408

Note 5. Receivables

	30 June 2003 \$'000	30 June 2002 \$'000
Interest receivable	9	1
GST recoverable	27	18
Income tax recoverable	33	–
	69	19

Note 6. Investments

	30 June 2003 \$'000	30 June 2002 \$'000
Investment in companies		
Proteome Systems Ltd	5,375	5,375
Pacific Knowledge Systems Pty Ltd	2,075	2,000
Alchemia Pty Ltd	2,000	2,000
XRT Ltd	4,000	4,000
Xenome Ltd	3,500	3,500
Biocomm Services Pty Limited	100	–
	17,050	16,875
Investments in convertible notes		
Pacific Knowledge Systems Pty Ltd	123	75
XRT Ltd	1,000	–
	1,123	75
Total investments	18,173	16,950

The investment in Biocomm Services Pty Limited is initially \$100,000, with a commitment to invest a total of \$3 million.

Note 7. Payables

	30 June 2003 \$'000	30 June 2002 \$'000
Managers fee payable	195	215
Trade creditors	38	29
Payable to Challenger Group Services Limited	50	5
	283	249

Note 8. Contributed equity

	2003 Shares	2003 \$'000	2002 Shares	2002 \$'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
30/06/2002	Opening Equity	80,030,100		38,990
30/06/2003	Closing Equity	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 2003 \$'000	30 June 2002 \$'000
Retained profits at the beginning of the financial year/period	91	5
Net profit from ordinary activities after income tax	(3)	86
Retained profits at the end of the financial year	88	91

Note 10. Equity

	30 June 2003 \$'000	30 June 2002 \$'000
Total equity at the beginning of the financial year/period	39,081	38,995
Total changes in equity recognised in the statement of financial performance	(3)	86
Total equity at the end of the financial year	39,078	39,081

Note 11. Reconciliation of operating profit after income tax to the net cash flow from operating activities

	30 June 2003 \$'000	30 June 2002 \$'000
Operating loss after income tax	(3)	86
Changes in assets and liabilities:		
(Increase)/decrease in other debtors	(50)	18
Increase in future income tax benefit	–	(3)
(Decrease) in provision for income tax payable	(37)	(156)
(Decrease) in deferred tax liabilities	(3)	(8)
Increase/(decrease) in payables	34	(6)
Net cash flow from operating activities	(59)	(69)

Note 12. Events Occurring After Balance Date

On 26 August 2003, the directors of BioTech Capital Limited resolved to issue bonus options to ordinary shareholders registered as at 10 October 2003 on the basis of one new option for every two fully paid ordinary shares held. These options will have an exercise price of \$0.55 and expire 10 October 2006.

Note 13. Remuneration of Directors

	30 June 2003 \$	30 June 2002 \$
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:	47,500	40,000

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 – \$10,000	3	4
\$10,001 – \$20,000	2	2

Note 14. Remuneration of auditors

	30 June 2003 \$'000	30 June 2002 \$'000
PwC – Australian firm		
Remuneration for audit or review of the financial statements	14,600	14,600
Remuneration for taxation services	0	2,500

Note 15. Related party disclosures

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

WEB Ireland
 AJ Davidson
 H Karelis
 IYL Lee
 A Basten

(b) Remuneration benefits

Information on remuneration benefits of directors is disclosed in note 13.

(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.

	2003 number	2002 number
Ordinary shares acquired	120,000	110,000
Options over ordinary shares acquired/(disposed) of	–	(54,500)

Note 15. Related party disclosures (cont.)

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.

	2003 number	2002 number
Ordinary shares	4,390,000	4,270,000
Options over ordinary shares	2,801,500	2,801,500

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

There were no director appointments or resignations during the financial year, or since 30/06/2003, though Alastair Davidson's status changed on 18/02/2003 from an executive director to a non-executive director (following his resignation from Challenger International Limited Group).

During the year, WEB Ireland was a director and shareholder of Challenger International Limited. AJ Davidson and H Karelis were employees and shareholders of Challenger International Limited. Challenger International Limited (now called Challenger Financial Services Group 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 2003 the management fees payable were \$782,056 (2002: \$796,943).

Note 16. Segment information

The company operates in one business segment where it invests in entities operating in the life-science/biotechnology sectors.

The company operates in one geographical segment being Australia.

Note 17. Financial instruments

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

30 June 2003			
Financial assets	Balance \$'000	Interest rate	Weighted average effective interest rate %
Cash	3,277	Floating	3.5
Bank bills	17,849	Floating	4.75
Receivables	69	N/A	–
Total financial assets	21,195		
Total financial liabilities – payables	283	N/A	–
Net financial assets	20,912		

30 June 2002			
Financial assets	Balance	Interest rate	Weighted average effective interest rate %
Cash	549	Floating	3.5
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.

Note 18. Earnings per share

	30 June 2003	30 June 2002
Basic earnings per share	0.00 cents per share	0.11 cents per share
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	80,030,100 shares	80,030,100 shares

For the purposes of diluted EPS there have been no diluting potential ordinary shares outstanding during the year.

Directors' declaration

The directors declare that the financial statements and notes set out on pages 43 to 52:

(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 2003 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
Director
Sydney

12 September 2003

Independent Audit Report to the members of BioTech Capital Limited

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Audit opinion

In our opinion, the financial report of BioTech Capital Limited:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of BioTech Capital Limited as at 30 June 2003, and of its performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for BioTech Capital Limited, for the year ended 30 June 2003.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the

inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view 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.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



PricewaterhouseCoopers



M Haberlin

Partner

Sydney

12 September 2003

Shareholder information

A. Spread of equity security holdings (as at 30 June 2003)

	Ordinary shares	
	Shares	Options
1 – 1,000	57	12
1,001 – 5,000	2,515	4,149
5,001 – 10,000	1,815	626
10,001 – 100,000	1,323	447
100,000 and over	45	32
	5,755	5,266

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities at 30 June 2003 are listed below:

	Ordinary shares	
	Number held	Percentage of issued shares %
Challenger Group Pty Ltd	3,891,096	4.86
Permanent Trustee Aust Ltd (Syd)	1,873,700	2.34
BMG Finance Pty Ltd	1,159,468	1.45
Commonwealth Custodial Services Ltd	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
Bond Street Custodians Limited	653,000	0.82
Mrs Thelma Joan Martin-Weber	600,000	0.75
National Nominees Limited	600,000	0.75
Colvic Pty Limited	447,500	0.56
Mr Neil Braden Goss	395,000	0.49
Tonita Pty Ltd	350,000	0.44
Harry Karelis	300,000	0.37
Mr John Anthony Nolan	300,000	0.37
Redbell Nominees Pty Limited	300,000	0.37
TDH Investments Pty Ltd (No. 3 A/C)	300,000	0.37
Mrs Robin Elizabeth White	260,000	0.32
Mr Nicholas Kemsley Gunner	250,000	0.31
Mr John Tsiaousis	236,000	0.29
	15,680,764	19.57

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.

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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
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Adelaide SA 5000
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Fax: 08 8212 1661

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Investor services: 13 35 66

Adviser services: 1800 621 009

Website: www.biotechcapital.com.au

Principal contact

Harry Karelis
Managing Director
Tel: + 61 2 9994 7058
Email: hkarelis@biotechcapital.com.au

Share registry

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

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Tel: 1300 55 44 74

Website: www.asxperpetual.com.au

