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COLLTECH AUSTRALIA LIMITED

ABN 24 094 515 992

SPECIAL PURPOSE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2003

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COLLTECH AUSTRALIA LIMITED

SPECIAL PURPOSE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2003

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COLLTECH AUSTRALIA LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2003

The directors present their report for the year ended 30 June 2003.

Directors

The following persons held office as directors during the financial year and up to the date of this report:

J Snowden (appointed 17/12/02)
M Pixley (appointed 17/12/02)
A Kluczewska (appointed 6/8/03)
N Donovan (appointed 6/8/03)
D Kennedy (appointed 10/12/02, resigned 6/8/03)
A Kain (appointed 10/4/03, resigned 24/7/03)
S Sassine (resigned 10/12/02)

Principal Activities

The principal activities of the company during the financial year involved the development and commercialisation of the process of extracting and purifying collagen from animal sources.

Operating Results

The net operating loss from ordinary activities for the financial year after income tax was $140,372 (2002: $2).

Dividends Paid

No dividend was declared or paid during the period.

No final dividend is payable for the year ended 30 June 2003.

Review of Operations

Colltech is an unlisted public company that commenced operations during the financial year to focus on extracting and refining collagen from Australian ovine (sheep) sources. This is a novel process which differs from competitors who derive collagen from bovine (calf) sources. Competitive advantage of ovine collagen include:

- significantly higher yields;
- lower cost structure;
- overcoming disease issues complicating bovine sources;
- premium raw material for high-margin pharmaceutical applications; and
- Australia offers veterinary controlled herds, with worldwide export licenses.

The high yields and low cost structure have been independently validated by CSIRO.

Collagens are naturally occurring proteins, as well as the primary compounds used in medical products for surgery, advanced wound dressings, haemostatics and sealants. Collagen is also a vital constituent for the makers of cosmetics, "functional foods" and nutraceuticals.

Colltech owns its IP royalty free. The company's current intellectual property portfolio protects the company's international claim to the use of sheepskins. Additional trade secret components protect the commercial exploitation of the intellectual property.

During the year Colltech received equity funds of $499,995 from Australian Development Capital Fund (ADV) representing a 16.67% shareholding in the company. Since year end ADV's shareholding has increased to 44.44% (refer to subsequent events).

The company was also awarded a $250,000 Biotechnology Innovation Fund Grant. As at 30 June 2003 the company had received $145,000 of this grant.

Other progress to date include:
- Negotiated and confirmed sheep skin suppliers;
- Successful test batch samples by leading Asian industry buyers;
- Facility site selected;
- Detailed construction and process engineering drawings completed;
- Plant and equipment costings identitifed;
- Key management personnel identified; and
- Negotiating with ADV and industry groups for plant funding.

Significant Changes in the State of Affairs
The company commenced its principal activities during the 2003 financial year. Previously the company was dormant.

Subsequent Events
No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years, except for:

Australian Development Capital Fund (ADV)
During July 2003 ADV increased its shareholding in Colltech from 16.67% to 44.44%.

Likely Developments
The short-term focus for the Colltech management team is the development and construction of the manufacturing plant in the south-west of Australia, with an expected completion date in the first half of 2004.

Simultaneous pre-launch marketing and early sales will be undertaken to ensure production and sales forecasts meet the second half 2004 timeline.

Environmental Issues
The company complies with the requirements of any environmental regulation under a law of the Commonwealth or of a State or Territory in which the company operates.

There have been no known breaches in relation to environmental regulation.

Proceedings on Behalf of Company
No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not party to any such proceedings during the year.

COLLTECH AUSTRALIA LIMITED
DIRECTORS' REPORT (CONTINUED)

Information on Current Directors

Dr John Snowden, BSc (Hons), Ph.D

Dr John Snowden is Colltech's head scientist and will lead the product development division. After graduating as a Ph.D. (Biochemistry) he was awarded a post-doctoral fellowship at Imperial College, University of London. He was then a research fellow at Harvard University and the Massachusetts General Hospital, Boston USA, working on medical aspects of collagen.

On returning to Australia, Dr Snowden worked for five years as a research fellow at the John Curtin School of Medical Research at the Australian National University in Canberra. This work was an extension of his initial study at Harvard University on the properties of collagen and quantitative analysis of wound healing. Dr Snowden is one of the world's leading authorities in the processes of extraction and purification of collagen and other biomaterials from animal sources.

Mr Michael Pixley

Mr Michael Pixley is a merchant banker specializing in strategic corporate development, joint ventures, and acquisitions. He has twenty years experience in the Asian business sector and has extensive networks and relationships that provide the company with access to key personnel in the governmental, corporate and private business sectors.

Mr Pixley joined ATD, a Singapore listed conglomerate with extensive business interests throughout Asia and extending to both USA and Australia. He was part of a small management team that oversaw the development of leisure developments through China and Australia and the initiation and expansion of contact lens manufacturing in Asia and Australia. The successful implementation of both these initiatives entailed Mr Pixley being a director of both listed and unlisted subsidiary companies in Australia and the USA, responsible for corporate compliance, banking negotiations and legal interface.

Dr Anna Kluczewska, BDSc

Dr Kluczewska is a qualified dental surgeon with post graduate studies in Australia and the US and was formerly a Global Product Manager, based in Vienna and Munich, for Baxter BioSurgery, a division of Baxter Healthcare Inc. Baxter BioSurgery operates in more than 50 countries around the world, providing surgical products for hemostasis and tissue sealing and the collagen-product portfolio.

Dr Kluczewska has experience in due diligence projects, global product development and management, and licensing and launch in new markets, with particular reference to collagen and its application in medical products. Dr Kluczewska is currently Principal of Integrin Consulting, and consultant to Baxter Healthcare Inc. and pSivida Limited.

Mrs Nadine Donovan, BBus, CPA

Graduated with a Bachelor of Business from Edith Cowan University (WA) and post-graduate studies to CPA qualified.

Mrs Donovan has extensive experience in financial accounting and corporate compliance. The past $2^1/_2$ years have been involved in the biotechnology industry, having previously spent 8 years in the power generation and oil and gas industry. Since early 2001, Mrs Donovan has been Company Secretary/Financial Controller of pSivida Limited, an Australian publicly listed biotechnology company, and was recently also appointed Director of that company. Mrs Donovan is also Company Secretary of Colltech Australia Limited.

COLLTECH AUSTRALIA LIMITED
DIRECTORS' REPORT (CONTINUED)

Meetings of Directors

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

	Number of Meetings While a Director	*Number of Meetings Attended*
Total number of meetings: 8		
M Pixley	6	6
J Snowden	6	5
D Kennedy	8	8
S Sassine	1	1
A Kain	-	-

Indemnification of Officers or Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the company.

Registered and Business Address

Registered Office:

Level 12 BGC Centre
28 The Esplanade
Perth WA 6000

Principal Office:

Level 1 Churchill Court
335 Hay Street
Subiaco WA 6008

Signed in accordance with a resolution of the Board of Directors.

M Pixley
Director

Perth, Western Australia
24 - 9 - 2003

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HLB Mann Judd

Chartered Accountants

INDEPENDENT AUDIT REPORT

To the members of
COLLTECH AUSTRALIA LIMITED

Scope

The Special Purpose Financial Report and Directors' Responsibility
The special purpose financial report comprises the statement of financial position as at 30 June 2003, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the year then ended, and the directors' declaration of Colltech Australia Limited ("the company").

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.

The accounting policies do not require the application of all Accounting Standards and other mandatory professional reporting requirements in Australia. The financial statements comply with Accounting Standards and other reporting requirements in Australia to the extent set out in Note 1 to the financial statements. The directors are responsible for the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements are appropriate to meet the requirements of the Corporations Act 2001 and the needs of the members.

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 and, to the extent described in Note 1, 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 of its performance as represented by the results of its operations and its 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.

HLB Mann Judd (WA Partnership)
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Partners: Ian H Barsden, Terry M Bennison, Lisa Christodulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Peter M Forbes, Trevor G Hodd, Norman G. Neill, Peter J Sowerby

HLB Mann Judd (WA Partnership) is a member of HLB International and the HLB Mann Judd National Association of independent accounting firms

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.

No opinion is expressed as to whether or not the accounting policies used, and described in Note 1, are appropriate to the needs of the members.

Independence

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

Audit Opinion

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

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view, in accordance with the accounting policies described in Note 1, of the financial position of Colltech Australia Limited as at 30 June 2003, and of its performance for the year then ended; and

  (ii) complying with Accounting Standards in Australia to the extent described in Note 1 and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia to the extent described in Note 1.

HLB Mann Judd.

HLB MANN JUDD
Chartered Accountants

L DI GIALLONARDO
Partner

Perth, Western Australia
24 **September 2003**

COLLTECH AUSTRALIA LIMITED
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 8 to 15 are in accordance with the Corporations Act 2001, and:

   a) comply with applicable Accounting Standards with the exceptions identified in Note 1, and the Corporations Regulations 2001; and

   b) give a true and fair view of the financial position as at 30 June 2003 and of the performance for the year ended on that date of the company;

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

M Pixley
Director

Perth, Western Australia
24 - 9 - 2003

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COLLTECH AUSTRALIA LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 $	2002 $
Revenue from ordinary activities	2	148,213	-
Depreciation and amortisation expenses		(490)	-
Other expenses from ordinary activities	3	(288,095)	(2)
Loss from ordinary activities before income tax		(140,372)	(2)
Income tax expense relating to ordinary activities	4	-	-
Net loss from ordinary activities after income tax attributable to members		(140,372)	(2)

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

COLLTECH AUSTRALIA LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003

	Notes	2003 $	2002 $
CURRENT ASSETS			
Cash assets	5	395,349	72
Receivables	6	-	65
Total Current Assets		395,349	137
NON-CURRENT ASSETS			
Property, plant and equipment	7	8,942	-
Total Non-Current Assets		8,942	-
TOTAL ASSETS		404,291	137
CURRENT LIABILITIES			
Payables	8	44,666	137
Total Current Liabilities		44,666	137
TOTAL LIABILITIES		44,666	137
NET ASSETS		359,625	0
EQUITY			
Contributed equity	9	500,000	3
Accumulated Losses	10	(140,375)	(3)
TOTAL EQUITY		359,625	0

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

COLLTECH AUSTRALIA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 $	2002 $
Cash flows from operating activities			
Payments to suppliers and employees		(250,824)	(2)
Interest received		3,213	-
Other Income – BIF Grant		145,000	-
Net goods and services tax received		7,323	-
Net cash provided by operating activities	11a)	(95,288)	(2)
Cash flows from investing activities			
Payments for property, plant and equipment		(9,432)	-
Net cash used in investing activities		(9,432)	-
Cash flows from financing activities			
Proceeds from issue of shares		499,997	2
Advances from other parties		-	72
Net cash provided by financing activities		499,997	74
Net increase in cash held		395,277	72
Cash at the beginning of the financial year		72	-
Cash at the end of the financial year	11b)	395,349	72

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

COLLTECH AUSTRALIA LIMITED

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a special purpose financial report that has been prepared in order to satisfy the financial report preparation requirements of the Corporations Act 2001. The directors have determined that the company is not a reporting entity and no users exist who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

The company has applied Accounting Standard AASB 1025, Application of the Reporting Entity Concept and Other Amendments, which amends the application clauses of all existing standards so that they now apply only to companies that qualify as reporting entities. However, the financial statements have been prepared in accordance with applicable Accounting Standards and Urgent Issues Group Consensus Views with the exception of the following:

AASB 1017	-	Related Party Disclosures
AASB 1033	-	Presentation and Disclosure of Financial Instruments

The accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

The financial report has been prepared on an accrual basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for all assets.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a. Revenue

Interest revenue is recognised in the Statement of Financial Performance when control of the right to receive the interest payment is obtained.

Grant revenue is recognised in the Statement of Financial Performance when received.

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

b. Income Tax

The company adopts the liability method of tax effect accounting whereby the income tax expense shown in the Statement of Financial Performance is based on the profit/loss from ordinary activities before income tax adjusted for any permanent differences.

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

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

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

COLLTECH AUSTRALIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003 (Con't)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

c. **Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call and deposits with banks or financial institutions and investments in the money market instruments maturing within less than two months, net of bank overdrafts.

d. **Property, Plant and Equipment**

Cost

Each class of property, plant and equipment are carried at cost less, where applicable, any accumulated depreciation.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment. The major depreciation periods are 3 years.

e. **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

f. **Research and Development**

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. To date no research and development costs, including costs associated with patent applications, have been deferred.

2. REVENUE	2003 $	2002 $
Operating Activities		
- Grant (Biotechnology Innovation Fund)	145,000	-
- Interest revenue from deposits	3,213	-
Total Revenue	148,213	-

3. OTHER EXPENSES FROM ORDINARY ACTVITIES		
Auditors remuneration - audit	3,500	-
- other	-	-
Consulting Fees	219,885	-
Travel and Accommodation	19,903	-
Rent	18,738	-
Other	26,069	2
	288,095	2

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COLLTECH AUSTRALIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003 (Con't)

	2003 $	2002 $
4. INCOME TAX		
Prima facie tax on loss from ordinary activities	(42,112)	(1)
Add permanent differences	617	-
Income tax expense attributable to ordinary activities	(41,495)	(1)
Future income tax benefit not brought to account	41,495	1
Income tax expense	-	-
Future income tax benefit from tax losses not brought to account at balance date as realisation of the benefit is not regarded as virtually certain (at 30%)	41,496	1

The future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the company in realising the benefit.

	2003 $	2002 $
5. CASH ASSETS		
Cash at bank	7,825	72
Deposits at call	387,524	-
	395,349	72
6. RECEIVABLES		
Sundry debtors	-	65
7. PROPERTY, PLANT AND EQUIPMENT		
Plant and Equipment		
At cost	4,211	-
Accumulated depreciation	(179)	-
	4,032	-
Furniture and Office Equipment		
At cost	4,767	-
Accumulated depreciation	(292)	-
	4,475	-
Computer Software		
At cost	454	-
Accumulated depreciation	(19)	-
	435	-
Total Property, Plant and Equipment	8,942	-

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COLLTECH AUSTRALIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003 (Con't)

a) *Movement in Carrying Amounts*

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

	Balance at 1 July 2002	*Disposals*	*Additions*	*Depreciation expense*	*Balance at 30 June 2003*
Plant & equipment	-	-	4,211	179	4,032
Furniture & Office Equipment	-	-	4,767	292	4,475
Computer software	-	-	454	19	435
	-	-	9,432	490	8,942

	2003	2002
8. PAYABLES	$	$
Accrued expenses	3,500	-
Sundry creditors	41,166	-
Unsecured Loans	-	137
	44,666	137
9. CONTRIBUTED EQUITY		
Issued and paid up capital		
Balance at beginning of the year	3	1
Issued shares	499,997	2
Ordinary shares	500,000	3
10. ACCUMULATED LOSSES		
Balance at the beginning of the year	(3)	(1)
Net loss from ordinary activities after income tax	(140,372)	(2)
Balance at the end of the year	(140,375)	(3)

11. CASHFLOW INFORMATION

a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax

	2003	2002
Operating loss after income tax	(140,372)	(2)
Non-cash flows in loss from ordinary activities:		
- Depreciation	490	-
Changes in assets and liabilities:		
Decrease / (Increase) in receivables	65	-
(Decrease) / Increase in payables	44,529	-
	(95,288)	(2)

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b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the Statement of Cash Flows comprise the following amounts in the Statement of Financial Position:

- Cash at bank	7,825	72
- Deposits at call	387,524	-
	395,349	72

12. SEGMENT INFORMATION

The company's business involves the development and commercialisation of the process of extracting and purifying collagen from animal sources in Australia, and as such, represents only one reportable business and geographical segment.