

ANNUAL REPORT 2001



PEPTECH

ACN 002 951 877

THE VISION ON

TO BE A LEADING PLAYER IN THE GLOBAL THERAPEUTIC PEPTIDE AND PROTEIN MARKET

THECONTENT

MANAGING DIRECTOR'S REPORT	02
RESEARCH AND OPERATIONAL ACTIVITIES	03
FINANCIAL SUMMARY	06
DIRECTORS' REPORT	07
CORPORATE GOVERNANCE STATEMENT	13
FINANCIAL REPORT	14
DIRECTORS' DECLARATION	52
INDEPENDENT AUDIT REPORT TO THE MEMBERS	53
SHAREHOLDER INFORMATION	54

The year ended 30 September 2001 was a landmark year for Peptech Limited. Revenue on a consolidated basis for the year rose to \$53.6 million from \$11.6 million in the previous year. Profit from ordinary activities after tax rose to \$30.7 million from a loss of \$314,000 in the previous year. The main contributing factors to these results were one-off receipts received pursuant to the license agreements signed between the Company and Centocor Inc and Knoll AG. Other significant factors were the disposal of the Danish property and unrealised foreign exchange gains which contributed \$4.7 million and \$3.1 million respectively to the post tax profit. The year also saw the first receipts of royalty income which should grow to a significant income stream in future years.

Whilst Ovuplant continued to command a major share in markets where it is approved for sale, US sales in the year were lower due in part, to product over-ordering by our distributor in the prior financial year. Ovuplant registration in Europe has been delayed by regulatory changes introduced pursuant to the outbreaks of foot and mouth and mad cow diseases in Europe. These regulatory issues have now been resolved and it is expected that a favourable outcome will be achieved in relation to the European registration soon.

The domestic pet contraception project is proceeding well. Preliminary clinical results for a six month product are extremely positive. We are hoping to be in a position to submit for Australian registration towards 3Q 2002 and for sales to commence in the following financial year. The scope of this product has been increased by enquiries received from wildlife parks in Africa where the uncontrolled breeding of certain wildlife species are affecting the environment and also the tourist trade of the countries concerned. Tests have consequently been conducted on wildlife species including elephants, giraffes and wild dogs. The US patent for the reversible castration formulation was granted in May 2001.

The Company has a portfolio of patents covering antibodies and antibody fragments which bind to TNF. These anti-TNF patents have been granted in Australia, Europe and Canada, and are awaiting approval in Japan. The US patent is at the moment still awaited. We have submitted and responded to all the queries raised by the US Patent Office and are awaiting further developments. We continue to be optimistic that the US patent will be granted to the Company soon.

In the year under review, Diversys Limited ("Diversys"), in which we will hold slightly more than 33%, had a number of significant developments that enhanced its prospects earlier than was originally contemplated. In September, Diversys

announced that a total of four patents were granted by the US Patent and Trademark Office to which Diversys was granted exclusive rights by the UK Medical Research Council ("MRC") for the generation of single domain products for applications covering therapeutics, diagnostics and proteomics. In addition, the MRC has also granted Diversys the right to use the patents to generate antibodies for a wide range of applications including proteomics and diagnostics. These patents are valuable to Diversys as they are highly relevant for the manufacture of single domains or antibody fragments. The issue of the four patents complements the Winter II patent granted earlier in June 2001. Another significant development is the recruitment of a number of highly qualified senior executives, who were previously employed in large US based healthcare companies.

Peptech and Diversys have commenced a collaborative research program under which our first target, a single domain against TNF, has been nominated. Peptech expect to take product candidates through pre-clinical development and into clinical trials. On-licensing of some products will be made when maximum value has been added to the products and their associated intellectual property, but before the large capital outlays necessary for later stage clinical trials are required.

Since the last Annual General Meeting the Company's management team has been strengthened by the appointments of Dr Phil Jennings as Chief Scientific Officer and, as Chief Financial Officer, Mr Niall Henderson, who bring with them many years of experience. Further, a general meeting scheduled on 7 January 2002 proposed to appoint Dr Ed Tweddell, Mrs Catherine Walter and Mr Graham Walters to the Board. Their appointments are timely as the Company is entering a new phase in its development. The individual experiences of the new Board members will strengthen the Board and enhance corporate governance.

Since the two one-off license payments received in the year under review and the profit from sale of property will not be repeated next year, it is unlikely that the revenue and profit figures reported on earlier will be surpassed next year. The amount of royalty and milestone revenues for the next financial year will be dependent on when the US Patent is granted, the continued growth in sales of Remicade and when D2E7 is submitted for registration.

Assuming the grant of our US patent applications and the claims continuing to be upheld, Peptech will continue to receive on-going royalties and remain one of the few profitable biotechnology companies in Australia.



Peptech has continued to make progress with both its human and animal health research and development during the year. In structuring our R&D investments we aim for a mix of R&D components balanced across the risk/reward profile. Our main effort aims to capitalise on our current IP and know how, with other elements under development to enhance the range of product applications. We have made important strategic decisions and accordingly are strengthening management and R&D infrastructure, both in-house and via collaboration, building on our strengths in product development and delivery and consolidating and extending on our intellectual property position.

Peptech sees its overall strengths as a capacity to strategically advance its science, combining effective patenting strategy and experience in developing and licensing IP, with depth and calibre at the level of its Board and Scientific Advisory Board. We have assembled a strong and cohesive management team that ensures focus on our core activities. There are clear opportunities in consolidating on our strengths. Within our core focus we will realise new science opportunities flowing from extensions to existing IP, the development of more cost effective and readily delivered therapeutic agents and extensions of the range of product opportunities arising from new applications of both existing targets and new target specificities. The range of product opportunities will be expanded by selective focus on opportunities including those in drug delivery approaches.

In this world of technological change competition from alternative approaches is inevitable. We recognize competition from outside of our IP position and, in this light, are looking not only at our biomedical operations but also at Peptech's veterinary strategy with a view to improving returns. We are looking at providing for robust solutions.

Peptech's recent appointments of a new Chief Scientific Officer, Dr Phil Jennings, and a new Manager, Business Development and Patents, Dr Greg Pullen provide for a synergistic mix with those of the wider team. They provide combined credentials and experience in protein engineering, patents, project and program leadership and management and commercialisation.

Further consistent with the Company's strategic decision to develop a strong presence in protein therapeutics, we have established an important international R&D collaboration with the Cambridge (UK) company Diversys, around the therapeutic application of single domains. Diversys' strengths in protein engineering combined with Peptech's position in IP, product development and innovation bode well for an exciting future.

We are selectively expanding the skill base, laboratory infrastructure, reagents and assays at Peptech to enable the rapid development of single domains and related protein and peptide therapeutics.

An extensive review of all Peptech intellectual property is in progress to identify patents that may be being infringed by other parties, as well as patents that have minimal current commercial value. This latter group, having been the subject of numerous commercialisation efforts in the past, will be allowed to lapse, thereby eliminating unnecessary expenditure.

HUMAN THERAPEUTICS

Tumour Necrosis Factor (TNF) Patent Position

Peptech is building on its strengths in developing its first therapeutic based on single domain technology against TNF. We have identified specific applications of single domains against TNF that we are taking forward. In this we springboard not only from a portfolio of patents covering ligands (more specifically antibodies and/or antibody fragments, which bind to TNF and modulate the biological properties of this potent cytokine) but also established reagents and assays and considerable technical know-how and market knowledge.

Peptech has major TNF Binding Ligand patents which are currently granted in Australia, Europe and Canada, and are awaiting approval in Japan and the US. We are focussed on strengthening this patent portfolio to enhance the protection it offers.

Single Domain Binding Proteins

Under Peptech's collaborative research agreement with Diversys, Diversys will produce single domain binding proteins against four targets nominated by Peptech. For the first target,

RESEARCH AND OPERATIONAL ACTIVITIES

now nominated, TNF, we have specified desired properties of the single domains and anticipate instigating pre-clinical work on candidate single domains on their provision by Diversys in the latter part of 2002.

For each product candidate from Diversys, Peptech expects to take each through pre-clinical development and into clinical trials, to a point of optimum value addition before on-licensing; thus avoiding the huge costs of late-stage clinical trials.

Peptech is currently developing a detailed project plan for the first panel of single domains, and is rigorously researching all available targets for selection of the remaining targets to be nominated to Diversys. An independent analysis commissioned by Peptech has established key criteria for the selection of disease and molecular targets and desirable properties for therapeutic proteins. Given that single domains represent a subset of the wider class of therapeutic proteins we recognise the potential for new intellectual property to be created and/or acquired which will provide not only for our specific applications but also for wider licensing opportunities.

A significant source of competition for protein drugs are new chemical entities (NCE's). We are well aware of the increased power of modern organic chemistry and better identification of NCE's but note the much shorter time of the pre clinical development (with attendant lower cost) for antibody drugs compared to NCE's (1-2years compared to 5-7years). This provides for competitive advantage and is a significant reason for our alliance with Diversys.

PEPTECH ANIMAL HEALTH

Implant for reversible contraception and behaviour management

The major R&D project of the Animal Health Group over the past few years has been the development and approval for sale of a long acting contraceptive implant. Peptech Animal Health's platform technology is a long acting drug release system, developed to release specific compounds over time and in small quantities. One compound, the peptide deslorelin, when applied continuously over long periods, acts to prevent the animal's release of its reproductive hormones. This results in

cessation of reproductive function in males and females. An additional benefit is that behaviour associated with reproduction in animals, in most cases, is suppressed. All these effects reverse naturally, once the drug is expended or the implant removed.

There are a number of other indications in animals which can be treated by this drug, and would represent a major advance over existing treatments. One such disease is Benign Prostatic Hyperplasia, a condition which affects most male dogs over 8 years of age. Current treatments use expensive drugs developed for humans, which have to be given daily. Peptech Animal Health's drug would only be given once for long term relief of symptoms.

Peptech Animal Health's immediate focus is to complete development of a product that will be approved for use in dogs and will have 6-months duration. Clinical studies are nearing completion, and all data will be available by end of Q1, 2002. The registration documents will be submitted shortly after this. Although this represents a 3-month delay over previous forecasts, data to this point are excellent and no further delays are foreshadowed.

The 12-month contraception study commenced in December, 2001 using a modified formulation, designed to achieve the longer duration.

During the year additional patents were granted on the platform delivery technology giving wider protection of the technology and adding to the company's solid position in this area.

Predicted market size for the companion animal products is substantial, with key markets being in Europe and USA. Market predictions for Australia remain solid at an estimated \$20million/annum.

Horses

Efficacy has been demonstrated in female horses in controlling reproduction, however the results indicate a lesser effectiveness than demonstrated for dogs. The data requires further evaluation and consideration will be made to adjust the formulation and/or dose if this evaluation is indicative of a positive outcome.

Stray Dogs

The studies established in Bangkok and Yogyakarta for the control of dog reproduction have been completed and were highly successful, demonstrating long term prevention of fertility of dogs in these countries. Approval for use of the drug in these countries will be sought following submission of the registration package to the Australian authorities.

Wildlife

Uncontrolled breeding of wildlife, particularly in countries such as South Africa and other African countries are leading to destruction of wildlife parks and wilderness areas. This will result in a large reduction in overseas income generated from tourists visiting these parks to view animals in their natural habitats. The major problem is overpopulation by elephants as they are such massive consumers of forage. Culling is no longer permitted by law and is generally unacceptable for humane reasons.

Peptech Animal Health's technology is being tested in many species including elephants, giraffes, monkeys and African wild dogs. At the recent Vth International Conference on Control of Reproduction in Wildlife, the results of some of this work were presented and were recognised as an alternate method for wildlife control.

Australian Native Animals

The collaboration of Peptech Animal Health with Macquarie University, and the National Parks and Wildlife Service evaluating the company's technology is continuing successfully. Positive results in reproductive control are being collected which will enable humane and rapid means of population control where culling or relocation is no longer an acceptable methodology.

New Technology

A new ARC Linkage Grant has been awarded to Macquarie University, Peptech Animal Health and BioQuest Ltd, to investigate a means of using the Peptech technology to permanently sterilise animals. If successful, veterinarians, owners and wildlife managers will have a complete range of tools at their disposal for the regulation of breeding in animals, from short term reversible sterilisation through to permanent sterilisation. This will make the whole animal population a potential target for our technology.

Ovuplant®

Peptech Animal Health's ovulating agent Ovuplant continues to perform well against its competitor in markets where it is approved for sale. Sales in the US were lower this year compared with the previous year due to over-ordering of the product late in the last financial year. This resulted in a larger than expected carry-over of product into this year. European registration proceedings were temporarily placed on hold during the year as the European Authorities changed the rules relating to submission. As a result a substantial additional package of information had to be produced and submitted. This was completed and it is now in the hands of the European Commission for Veterinary Medicinal Products, the body responsible for approval of veterinary products in the EEC.

Peptech still awaits the decision of the Brazilian authorities on approval to sell in that country.

The following information is a summary of financial performance for the year to 30 September, 2001.

	Sept	Sept
Profit & Loss (AUD Millions)	2001	2000
Revenue from ordinary activities		
Sales, licensing and royalty income	28.2	3.4
Interest	1.2	0.5
Proceeds from sale of property, plant and equipment	17.9	-
Proceeds from sale of Equity Investment	-	2.5
Rental income	3.2	4.5
Foreign Exchange Gains (net)	3.1	0.3
Other income	-	0.5
Total revenue from ordinary activities	53.6	11.7
Expenses from ordinary activities		
Changes in Inventories of finished goods and work in progress	0.1	(0.2)
Raw materials and consumables used	(1.1)	(1.9)
Employee benefits	(2.3)	(1.9)
Depreciation and amortisation	(0.8)	(1.1)
Borrowing costs	(0.8)	(1.0)
Book value and costs related to:		
- sale of property, plant & equipment	(13.2)	-
- sale of equity investment	-	(1.3)
Other operating expenses	(6.5)	(4.6)
Total expenses from ordinary activities	(24.6)	(12.0)
Profit (loss) from ordinary activities before tax	29.0	(0.3)
Income tax benefit	1.7	-
Profit (loss) from ordinary activities after tax	30.7	(0.3)
Basic EPS	21.2¢	(0.2¢)
Diluted EPS	19.9¢	(0.2¢)
NTA backing per share	29.4¢	5.2¢

Key Points:

- Profit from ordinary activities after tax for the year was \$30.7 million compared to a loss of \$0.3 million in 2000. Peptech continued to generate positive operating cash flows with \$23.4 million generated in the financial year compared to \$0.6 million in 2000.
- Peptech signed two major license agreements with Knoll AG and Centocor Inc. which resulted in licensing, milestone and royalty income of \$26.5 million.
- A net unrealised foreign exchange profit of \$3.1 million and the recognition of tax benefits amounting to \$1.7 million also contributed to the result.
- Basic earnings per share and net tangible asset backing per share increased to 21.2¢ and 29.4¢ respectively from (0.2¢) and 5.2¢ respectively.
- In April 2001, Peptech entered a Joint Research Collaboration with Diversys Ltd ("Diversys"), under which Diversys would devise and implement a research and development programme on behalf of Peptech. During the financial year, Peptech has expensed \$1.6 million in relation to this programme.
- The Danish investment property was disposed of during the financial year with proceeds of \$17.8 million and a \$4.7 million contribution to profit after tax.



The Directors of Peptech Limited ("Peptech"), the Company and Parent Entity, present their report made in accordance with a resolution of Directors, in respect of the results of the Consolidated Entity for the year ended 30 September, 2001.

Directors

The names of the Directors of the Company in office during the year and up to the date of this report are as follows:

Mr S. Kwik (Managing Director)
 Professor G.F. Mitchell
 Dr T. Medinger
 Dr G. Winter (appointed 8 May, 2001)
 Mr G. Morris (resigned 5 July, 2001)

Principal activities

The principal continuing activities of the Consolidated Entity during the year were to undertake research, development, investment in and licensing of technology, and the formulation, manufacture and marketing of peptide-based products for the pharmaceutical and veterinary industries.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Consolidated Entity during the financial year were as follows.

a) TNF Binding Ligands Patent Licensing

In January 2001, Peptech concluded two major license agreements. Under these agreements, Peptech's anti-TNF patents were licensed to Knoll AG and Centocor Inc. This resulted in licensing, milestone and royalty income for the financial year of \$26.5 million.

b) Investment in Diversys

In April 2001, the company announced that it had entered into a subscription agreement to subscribe for up to 33.6% in the capital of Diversys Ltd ("Diversys") a company based in

Cambridge, UK. Diversys has a number of exclusive and co-exclusive rights to a portfolio of patents and patent applications essential to building a unique protein engineering company. During the financial year, Peptech acquired an initial 20.9% interest in Diversys for US\$ 3.5 million. The remaining 12.7% interest will be acquired equally over the following two years.

Peptech has entered into a Joint Research Collaboration with Diversys under which Diversys will devise and implement a research programme on behalf of Peptech against four targets chosen by Peptech. Peptech will pay Diversys a total of US \$10 million of which US\$ 5 million has been paid during the financial year. The balance of US\$ 5 million is payable equally over the following two years.

c) Drug Delivery Technology Development

In May 2001, Peptech was granted a 20 year US patent (effective from April 1996) for its reversible castration formulation. The formulation is the basis for a long-acting veterinary contraceptive product.

d) PUFA Commercialisation Agreement

To assist Peptech management in focussing on its core research activities, Peptech executed an agreement with Women's and Children's Hospital Adelaide (WCH) in November 2000, where WCH is appointed to negotiate the commercialisation of the Polyunsaturated Fatty Acid (PUFA) technology with commercial parties. Peptech will share in a proportion of any future revenues generated from the successful commercialisation of this technology.

e) Danish Property

The sale of the investment property in Denmark was concluded in the second half of the year. The disposal of this property was appropriate as it did not fit the current core business activity of the Peptech Group. The disposal contributed \$17.8 million to consolidated revenue and \$4.7 million to consolidated profit after income tax.

DIRECTORS' REPORT

Trading Results

Revenue from ordinary activities for the financial year was \$53,593,000 (2000 - \$11,682,000).

Profit from ordinary activities after income tax for the year was \$30,667,000 (\$314,000 loss - 2000).

Dividends

No dividends were paid or credited during the financial year and no dividend is recommended in respect of the year.

Earnings Per Share

	2001	2000
Basic Earnings Per share	21.2¢	(0.2¢)
Diluted Earnings per share	19.9¢	(0.2¢)

Matters Subsequent to the end of the financial year

Other than as stated in Note 37 of the financial statements, since the end of the financial year, the Directors are not aware of any matter or circumstance that has significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent financial years.

Likely Developments

Information on likely developments has not been included in this report because the Directors believe it would result in unreasonable prejudice to the Consolidated Entity.

Environmental Regulations

The Consolidated Entity is subject to environmental regulations in respect of disposal of wastes generated in the operation of its laboratories. Such wastes are separately collected and classified according to type, for example solvents and all other potentially hazardous material. They are disposed of by waste collection organisations as relevant to the type of waste.

There have been no known breaches of the Environmental Acts and Regulations during the current year.

Share Options Granted to and Exercised by Directors and Most Highly Remunerated Officers

Options over unissued ordinary shares of Peptech Limited granted to or exercised by any of the directors or the most highly remunerated Executive Officers of the Company and Consolidated Entity as part of their remuneration during or

since the end of the financial year are listed in the following tables. No options were granted to Directors during or since the end of the financial year.

Name	Exercised	Granted	Remaining
Directors:			
S. Kwik	640,000	-	1,860,000
T. Medinger	-	-	250,000
G. Mitchell	-	-	-
G. Winter (from 8/5/2001)	-	-	-
G. Morris* (from 1/10/2000 - 5/7/2001)	-	-	-
Executives:			
T. Trigg	900,000	100,000	600,000
P. Jennings	-	1,000,000	1,000,000
D. Mills* (from 1/10/2000-17/5/2001)	320,000	-	-
J. Goor	-	80,000	155,000

*Excludes options exercised after resignation from office in accordance with the terms of the 1999 Peptech Option Plan.

On 3 October, 2000 options were issued to the following directors at an exercise price of 30¢ under the 1999 Peptech Option Plan:

S. Kwik	2,500,000
G. Morris (resigned 5 July, 2001)	750,000
	3,250,000

The above options were granted on 19 September 2000 and accordingly disclosed in the Directors' Report for the financial year ended 30 September 2000.

Details regarding options granted to Executive Officers of the Consolidated Entity during or since the end of the financial year were as follows:

Date	Name	Options Granted	Exercise Price
21-11-00	J. Goor	40,000	\$1.21
24-08-01	P. Jennings	1,000,000	\$2.23
01-10-01	J. Goor	40,000	\$2.41
01-10-01	T. Trigg	100,000	\$2.41

640,000 options have been exercised by S. Kwik since 1 October 2000. Mr G. Morris exercised 750,000 options subsequent to his resignation and in accordance with the terms of the 1999 Peptech Options Plan. No other Directors of the Parent Entity have exercised any options with the exception of Dr G. Winter who exercised 100,000 options prior to his appointment as a Director. These options were granted to Dr G. Winter on 31 December 1996 as a consultant to the company pursuant to the Peptech Limited Employee Option Scheme.

Shares Under Option

The number of unissued ordinary shares under the Option Schemes at the date of this report is 7,121,128. Disclosure of exercise prices and expiry dates can be found at Note 20(g) of the financial statements in respect of options outstanding as at 30 September 2001.

Under the Peptech Limited Employee Option Scheme, each option granted to employees, consultants and technical advisors is convertible into one ordinary share for an exercise price of 100% of the average trading price on the last five days of trading before the date of the grant, with a minimum exercise price of 60¢. Each option granted to Directors is convertible into one ordinary share for an exercise price of 120% of the average of the prices at which ordinary shares in the Company were sold in the last five trading days on which sales took place prior to the date of grant or 60¢ per share, whichever is the higher. Options are first exercisable, in accordance with the rules of the Scheme, generally between two and five years after the date of the grant.

Under the 1999 Peptech Option Plan, each option granted is convertible into one ordinary share for an exercise price of 100% of the weighted average trading price on the last thirty days of trading before the date of the grant or as approved by shareholders in a general meeting. There are no specific time limits imposed under the plan however, options are generally exercisable between six months and five years after the date of the grant or as approved by shareholders in a general meeting.

Details regarding shares issued on the exercise of options, as well as options issued under the plans during the financial year are disclosed at Note 35 of the financial statements.

Since the end of the financial year:

- The Company has granted 1,020,000 share options of which 720,000 options have been issued; and
- The Company has issued 1,028,500 shares from the exercise of options.

No person entitled to exercise any option under the above plans has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

Insurance of Officers

During the year, the Company paid a premium in respect of a contract insuring the Directors and Officers against certain liabilities that they may incur in the course of exercising the powers of the Company. The contract prohibits the disclosure of the details of the Directors' and Officers' liability insurance and the Corporations Act 2001 does not require disclosure in these circumstances. Since the end of the financial year, the Company has entered into an agreement with certain Directors to indemnify or insure them to maximum extent of the law.

Further Information on the Board of Directors

Stephen Kwik FCA Managing Director

Mr Kwik, aged 58, is a chartered accountant with extensive international commercial experience. Mr Kwik has been involved in corporate governance for over 25 years with operations in Europe, North America and Asia.

Immediately prior to joining the company, he was a director and co-founder of a financial consultancy operation based in Singapore.

Professor Graham Mitchell AO, RDA, BVSc, FACVSc, PhD, FTSE, FAA Non-Executive

Professor Mitchell, aged 60, is a Principal of Foursight Associates Pty Ltd, a Melbourne-based advisory group in science and technology, with clients in the financial sector, industry, academia and government. He is a veterinary graduate of Sydney University and was formerly a researcher at the Walter and Eliza Hall Institute of Medical Research, Melbourne. Most recently he was Director of Research in the R&D Division of CSL Limited and has international scientific

DIRECTORS' REPORT

research experience and a deep knowledge of the academia to industry interface. He is a fellow of the Australian Academy of Science and the Australian Academy of Technological Sciences and Engineering and is principal scientific advisor to the Victorian Government.

He is currently a non-executive director of Compumedics Limited, Antisense Therapeutics Limited, AVS Pty Limited, and the Geoffrey Gardner Dairy Foundation.

Till Medinger MA, DPhil (Oxon)

Non-Executive

Dr Medinger, aged 61, was until recently Senior Vice President Corporate Strategy at AstraZeneca plc and was formerly Zeneca Pharmaceuticals International Business Director. As its International Marketing Director he oversaw the launch of several products now enjoying major global success.

He was president of the Association of the British Pharmaceutical Industry from 1994 to 1996 and has many years international experience, serving on the Boards of the European Federation of Pharmaceutical Industry Associations and the International Federation of Pharmaceutical Manufacturers' Associations. His business career has spanned R&D, licensing and acquisition, strategic planning and territorial and marketing management. He is chairman of PhotoBiotics Limited and a Non-Executive Director of ML Laboratories plc, Renovo Limited and acts as a corporate consultant to a number of emerging US high-tech companies.

Greg Winter PhD, CBE, FRS

Non-Executive

Dr Winter, aged 50, joined the Peptech board on 8 May 2001. He is joint Head of the Protein and Nucleic Acids Chemistry Division of the MRC Laboratory of Molecular Biology, Deputy Director of the Centre for Protein Engineering in Cambridge, and Founder and Director of Diversys Limited. He was one of the pioneers of protein engineering, working in the early 1980's on enzymes and subsequently on antibodies. He developed widely commercialised technologies for making humanised antibodies by recombinant DNA technology and also for making synthetic human antibodies in bacteria. He was a Founder and Director of Cambridge Antibody Technology Limited and is inventor on several of the key patents in the field of antibody technology.

Meetings of Directors

The number of Directors' meetings, meetings of committees of Directors (held in the period each Director held office during the financial year) and the number of meetings attended by each Director are:

Director	Board Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
Mr S. Kwik	6	6	2	2
Prof G. Mitchell	6	5	-	-
Dr T. Medinger	6	6	2	2
Mr G. Morris	5	5	2	2
Dr G. Winter	2	2	-	-

Directors' & Executives' Emoluments

The Managing Director advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Peptech Limited Employee Option Scheme and the 1999 Peptech Option Plan.

Remuneration packages are set at levels that are intended to attract and retain Executives capable of managing the Consolidated Entity's diverse operations.

Remuneration and other terms of employment for certain Senior Executives are formalised in service agreements.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

Details of the nature and amount of each element of the emoluments of each Director of Peptech Limited and the most highly remunerated Executive Officers of the Company and the Consolidated Entity are set out in the following tables:

Non-Executive Directors of Peptech Limited

Name	Base Fee \$	Superannuation \$	Total \$
T. Medinger	35,004	-	35,004
G. Mitchell	34,344	2,748	37,092
G. Morris (to 5/7/2001)	-	-	-
G. Winter (from 8/5/2001)	-	-	-

Executive Directors of Peptech Limited

Name	Base Salary \$	Motor Vehicle \$	Superannuation \$	Total \$
S. Kwik	369,859	19,238	71,074	460,171

During the year, Mr S.Kwik was issued 2,500,000 options which have an assessed value of \$1,000,000. This value will only be realised if certain conditions in relation to these options are and continue to be met.

Other Executives of Peptech Limited

Name	Base Salary \$	Motor Vehicle \$	Termination Payment (incl. annual and long service leave) \$	Superannuation \$	Total \$
P. Jennings Chief Scientific Officer (from 17/9/2001)	8,387	-	-	3,158	11,545
D. Mills Chief Financial Officer (to 17/5/2001)	91,294	10,201	303,509	7,207	412,211

Other Executives of the Consolidated Entity

Name	Base Salary \$	Motor Vehicle \$	Superannuation \$	Total \$
T. Trigg Director, Peptech Animal Health Pty Ltd	141,480	21,094	27,761	190,335
J. Goor Director, Herredsvejen Ejendoms A/s	142,925	-	-	142,925

Disclosure is made only in respect of 'Executives', being officers who are involved in, concerned in, or who take part in, the management of the affairs of the Company and the Consolidated Entity.

For valuation purposes, options are included as remuneration based on the date of issue.

The amounts disclosed above for remuneration relating to options is the assessed fair value of options at the date they were issued to Directors and other executives during the period up to the date of this report.

The fair value of these options has been assessed using the 30 day weighted average market price prior to the date of grant, less the exercise price. Where options have been issued at market price, no value has been attributed to the options. Options held by Directors and Executives at the date of this report are exercisable at 30¢, 42¢, 53¢, \$1.21, \$2.23 and \$2.41. The share price at 30 September, 2001 was \$2.31.

Directors' Shareholdings

The relevant interests of each Director in the Share Capital of the Company at the date of this report is as follows:

Directors at date of this Report	Beneficially Held	Non-beneficially Held
Mr S. Kwik	640,000 shares 1,860,000 options	Nil
Dr T. Medinger	80,000 shares 250,000 options	Nil
Prof G. Mitchell	Nil	Nil
Dr G. Winter	100,000 shares	Nil

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

Rounding of amounts

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

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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



S. Kwik
Managing Director
Sydney, 19 December 2001

Protection of Shareholders' Interests

This statement outlines the main corporate governance practices in place at the date of this report. The Directors are committed to maintaining and enhancing these practices over the next twelve months. The Directors are responsible for protecting the rights and interests of the shareholders through the implementation of sound strategic plans for the Company, governing its functions, resources and assets. The composition, powers and authority of the Boards of controlled entities are subject to the approval of the parent Board.

Board Composition and Membership

The Board comprises both Executive and Non-Executive Directors, with a majority being Non-Executive.

The list of Directors is provided on page 7 of this report. The composition of the Board is determined by the following principles:

- More Directors may be added to enhance the level of expertise in certain areas;
- A majority of Non-Executive Directors; and
- Provision of an appropriate mix of qualifications, skills and experience.

Board composition and membership is reviewed at least annually.

Independent Professional Advice

The Board has a policy of enabling Directors to seek independent professional advice at the Company's expense. The Board will review in advance the estimated costs for reasonableness, but will not impede the seeking of advice.

Compensation Arrangements

The Board is responsible for reviewing compensation arrangements for:

- The Managing Director and other Senior Executives; and
- Non-Executive members of the Board.

The Managing Director is also responsible for reviewing management incentive schemes, share option schemes, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. The Managing Director may obtain advice from external consultants on the

appropriateness of remuneration packages and other employment conditions.

Executive Directors do not take part in deliberations relating to their own remuneration.

Audit Committee

The Board maintains an Audit Committee of two Directors being S. Kwik and T. Medinger. Audit Committee meetings may also be attended by the Chief Financial Officer and the external auditors.

The Audit Committee's role is to provide a direct link between the Board and the external audit function of the Company. This includes reviewing and reporting to the Board that:

- The system of control which management has established effectively safeguards the Company's assets;
- Accounting records are properly maintained in accordance with statutory requirements;
- Financial information provided to shareholders and others is accurate and reliable; and
- External audit functions are effective and are appropriately resourced.

To fulfil these responsibilities, the Committee meets with and receives reports from external auditors dealing with any matters which arise in connection with their audits including the maintenance of the control environment.

The Audit Committee is also responsible for the nomination of the external auditors.

Identifying Significant Business Risk

The Board regularly monitors and receives advice on the operational and financial performance of each of the Company's activities. In doing so it regularly addresses strategies for appropriate risk management arrangements.