



GROPEP LIMITED
ANNUAL GENERAL MEETING
THURSDAY, 21 NOVEMBER 2002

Chairman's Address

The year ended 30th June 2002 was the worst in the Company's history with the result being a loss of \$6.9 million.

First of all, let me say all of your directors understand that you are concerned about what happened to the Company over the past financial year and to the price of our shares. I know how disappointed you are. I have spoken with many of you. We know you have concerns about the performance of the Company, and the drop in the share price. While the biotechnology sector is out of favour, we have suffered a greater market fall than most.

Our objective has been through our actions, to restore investor confidence in what is a good company with a good business, being run by a committed group of people who believe in it.

Today, I want to spend some time talking to you about the challenges GroPep has faced and the actions we have taken to address those challenges.

The Company dealt with a number of difficult issues including:

- An unsuccessful clinical trial
- Addressing the outcome of the acquisition of Biotech Australia
- The former managing director's employment contract ending early
- Adverse market conditions generally
- A profit downgrade

The Board responded to these issues by:

- Cutting expenditure on drug development
- Closing the Biotech Australia business, selling the Sydney site and all plant, equipment and other assets which GroPep could not utilise
- Recruiting a new Chief Executive Officer
- Focusing management efforts on cashflow generation, eliminating debt and driving the business forward.

We have restored the Company to a healthy financial position in that we will be debt free by the end of December and well on the way to generating positive cashflow in the second half of the year. The Company is now positioned for growth.

Our Current Share Price

Your Board is extremely concerned by the fall in the share price of the Company. The Biotechnology Index has fallen by approximately 50% since mid-April. Clearly the sector is out of favour but our share price has suffered a great market fall than most.

Taking the various issues I referred to earlier into account, the Board believes, having worked through those issues that our share price now is at a significant discount. To a large degree, this belief reflects the fact that the company will shortly be debt-free and by the end of the half year is likely to have approximately \$4.5 million cash and receivables of \$5.0 million, not to mention cashflow from the cell culture business.

Research and Development

We have already announced that our R&D expenditure for the current year has been cut, with no more than a net \$2.5 million to be spent on biopharmaceutical product development. All of our projects are the subject of a review, which is currently in progress.

Expenditure on development will only be made where that expenditure is towards resolving a significant unmet medical need, subject to independent verification of market size and potential and an independent review of the science and our capacity to undertake the work required.

The Board

As well as reviewing the company's activities, we have reviewed the composition of the Board. Whilst we believe the current board is appropriate in size and composition, we consider it is appropriate to seek additional biotechnology or pharmaceutical experience to complement the existing skill base.

We have commissioned a search firm to assist us with this task. We expect to be in a position to announce at least one additional appointment to the board in the near future.

Paul Donnelly and I will submit ourselves for re-election later in the meeting.

Directors and Staff Dealing in Company Shares

A number of directors and staff have expressed a desire to add to their holdings at current price levels. Accordingly the board has decided to introduce a third trading window, which will commence 24 hours after the conclusion of the annual general meeting and end on 31 December this year and in subsequent years.

The existing trading windows are to be extended from one month to six weeks after the company publicly announces its annual or half yearly results.

Of course, these trading periods are only available to directors or staff provided they are not in possession of undisclosed market sensitive information.

Our People

We are fortunate to have such a highly professional and dedicated staff. The year has, as I have already said, been difficult and has challenged many of us.

I wish to pay particular tribute to Chris Goddard who agreed to act as Chief Executive Officer while the company searched for a new Managing Director. He carried out these duties with distinction and all staff responded positively to his leadership. He was able to motivate people to give of their best in difficult circumstances.

Whilst I have singled out Chris, it has been a team effort to overcome our difficulties and everyone has played his or her part. On behalf of all shareholders, I thank them for their continuing efforts, on your behalf.

New Managing Director

Bob Finder was chosen by your directors after an extensive worldwide search.

Bob was the outstanding candidate, for the position of CEO, from an impressive line up. The Board was attracted to his substantial commercial and manufacturing experience in the pharmaceutical industry, his demonstrable leadership skills and his track record as a manager. These are the skills we believe GroPep needs, as it goes forward. Our decision to appoint him was unanimous.

Shareholders will be asked to vote on his election to the Board of the company later in the meeting. You will also be asked to approve a grant of options to Mr. Finder, as part of his employment conditions. I will speak to this issue prior to putting the resolution to shareholders.

It is now my very great pleasure to invite our new Chief Executive Officer to address the meeting to tell you something about himself, his early impressions of GroPep and his plans for the company.

Managing Director's Report

Thank you Richard, and Good Afternoon.

This is the first opportunity I have had since my appointment to address a large group of GroPep shareholders.

So I thought I should let you know a little bit about myself, the position your company is in at the moment, and the direction I see it heading.

As you have no doubt worked out by now, I am a transplanted American. I have been living in Adelaide for 3 years. I didn't think that I would be able to convince you I was raised in South Australia, with my accent.

Background

My business background is mainly in the pharmaceutical industry. I was previously the President and Chief Executive Officer of Mayne Pharma Americas and Asia Pacific.

Mayne Pharma came out of Mayne's acquisition of F H Faulding, where I was President and Chief Operating Officer of Faulding Pharmaceuticals – Asia Pacific, with my office based here in Adelaide.

I spent a total of six years with Faulding, including four years working for Faulding in the USA.

Prior to that time, I had spent a couple of years with a biotech company called Ecogen Inc., in the USA, where I was Vice President of Operations. I was Director of Manufacturing for the French company, Rhone-Poulenc's Fine Organic Division in the USA. I was also Managing Director for both Rhone Poulenc's and Monsanto's Thai operations. I spent a total of 6 years in Thailand. My training was originally as a Chemical Engineer and I spent a total of 20 years working for Monsanto, mainly in the active pharmaceutical ingredients (API) area.

Current GroPep Emphasis

But that is more than enough about me. Let's talk about GroPep.

Since I come from the commercial/manufacturing world rather than from the science community, my approach to business, as we go forward with GroPep, will reflect this difference.

I want GroPep to focus on the bottom-line, in particular to cash flow, and to adopt a more market-driven rather than the science-driven approach.

In saying that, I do not diminish the importance of GroPep's science and its gifted staff members who are outstanding scientists, who are determined to ensure that this company overcomes its recent difficulties and becomes as successful as you, the shareholders, would wish.

My responsibility is to introduce the new directions, which will enable them to achieve this goal.

As we know, the past 12 months have been the most difficult in the company's history.

I don't intend reviewing what happened during that period. I wasn't there and, anyway, I prefer to look forward.

Since taking over the reins in September, I have met with as many shareholders and potential new investors as possible, both to hear their comments and explain what I believe needs to take place in the future.

The message I have given since I joined this company is that it is vital for GroPep to eliminate debt and focus on improving cash flow.

The sale of the Biotech Australia land and equipment in Sydney this month has enabled us to achieve the first part of this strategy.

The sale, to a subsidiary of Macquarie Real Estate Equity Fund Number 1 and an investment company of Denham Constructions Pty Ltd., along with the auction of equipment on site, means the company will be debt-free with December's payment and is in a good cash position going forward.

This cash position will enable us to make well-considered decisions about GroPep's future. The worst mistake would be to make panic-driven decisions based on the current share price.

It is important to stress that in the short term it will be a matter of getting back to basics and protecting our core business.

We will certainly become more market-driven and will concentrate on establishing and sustaining a positive cash flow position.

This will be achieved by optimizing our profitable cell growth factor business through understanding the market better and improving the production process.

By successfully optimizing production, we can delay the need for a second manufacturing site for the next three years and reduce the need for cash outlay.

Of course, if the cell growth business expands further than expected, and we all hope it does, we will adjust our plans to meet the market.

We are working with JRH Biosciences in order to gain a better understanding of the worldwide cell culture market over the next five years.

We are also challenging the business model of our biotech reagents business.

Whilst the reagents business has been growing steadily in the past three years, we must decide whether we can grow this business to a critical mass that will really make a significant contribution to the company's future.

In the area of biopharmaceutical development our immediate aim is to focus only on high quality product development projects and to select them by market demand and sound technology requirement.

We will exploit areas where the company is doing well and improve areas where performance is less than optimal.

Strategic Review

The Management Team is currently in the process of conducting a strategic review of operations and we plan to present recommendations with action plans to the Board, early next year.

Areas of review include:

- Deciding if and where we need to allocate more resources into the already profitable cell growth area
- Where we should go with our reagents business and its long-term potential
- What should be the drivers of the product development effort

You can be assured that any recommendations will focus on cash flow and with the target of reaching profitability during 2003-04.

After we make our recommendations and gain approval from the Board, we will communicate our plans to shareholders, in accordance with our continuous disclosure obligations.

Conclusion

In conclusion, assuming that our cell growth business continues to grow at its current pace, I am confident that in the next 18 months GroPep will be able to improve cash flow and return to profitability.

With that return to prosperity and gaining back your trust in Management, we should begin to see a recovery in the share price.

I want to emphasise again that we have a solid core cell growth business and a talented base of scientists on which to grow a successful biopharma business.

My thanks go to the Board and to shareholders for their support in allowing me the opportunity to help GroPep develop as one of Australia's biotechnology success stories.

Thank you.