

CONTINENTAL VENTURE CAPITAL LIMITED

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CONTINENTAL VENTURE CAPITAL LIMITED

ANNUAL REPORT 2000

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Company Particulars

Directors

Vanda Russell Gould
John Scott Leaver
John Douglas Read
Alexander Damien Harry Beard

Secretary

Alexander Damien Harry Beard

Senior Management Team

Vanda Russell Gould
John Scott Leaver
Alexander Damien Beard
Carolyn Beth Deitz
Andrew Duncan Harris
Colin Lawrence Liebmann

Principal and Registered Office

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50 Bridge Street
SYDNEY NSW 2000
AUSTRALIA
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Share Registry

Gould Ralph Services Pty Limited
Share Registry Division
Level 40
50 Bridge Street
SYDNEY NSW 2000
AUSTRALIA
Telephone: (02) 9231 0500
Facsimile: (02) 9231 0501

Auditors

Lord & Brown
Chartered Accountants
Level 8
1 York Street
SYDNEY NSW 2000

Bankers

National Australia Bank Limited
Suncorp-Metway Limited

Home Stock Exchange

Sydney

CHAIRMAN'S REPORT

CVC is thus well-placed with a well-rounded portfolio of growth investments which will ensure that our results for the forthcoming financial year should exceed what has been achieved for the year ended 30 June 2000.

It is with pleasure that I report a further increase in the level of profitability of Continental Venture Capital Limited ("CVC") from \$7,941,070 to \$10,225,782. An increased level of dividends (from \$1,121,773 to \$1,371,700) has been approved by directors. The Company's fundamental objective continues to be the achievement of capital growth.

There have been a number of exciting developments during the past year, which should ensure that the financial momentum of CVC continues to accelerate which will result in the capital base of the Company continuing to rapidly expand over the foreseeable future, facilitating an increasing level of dividends being paid.

Perhaps one of the most significant developments during the past year was the awarding to a joint venture including CVC Investment Managers Pty Limited by the Australian Government of the right to manage the investment of Government funds in excess of \$20 million combined with private funds (including CVC's own monies) to establish a \$30 million investment fund focussed on renewable energy. The appointment as the Government's Manager of the Renewable Energy Equity Fund against extensive institutional competition is an achievement which reflects our expertise in venture capital.

Already in the United States of America renewable energy accounts for 2.3% of energy output and with the Government incentives that are available we may expect that similar results will be achieved in Australia. According to experts, there is a possibility that within a decade renewable energy will account for up to 10% of the total electric power production in both the USA and Australia.

Our vision is for CVC to develop renewable energy as a core venture capital investment activity. Thus our shareholders will see their monies invested in wind, solar, wave and biomass projects, which should provide particularly satisfactory returns when the leverage provided by the Government funding is taken into account. We anticipate that over the next five years CVC's shareholders will be given a number of opportunities to invest directly into the renewable energy sector as we see a number of different opportunities coming to fruition during that time. Already in the USA wind power alone has seen the market for electricity generation growing at between 30% - 40% per

year – a \$4 billion-a-year industry in that country. Europe boasts seven of the top 10 producers of wind turbines and is also experiencing rapid growth.

Even the solar power market is expected to start showing some of the promise that has always existed in this area. Even though solar photovoltaic panels remain expensive, according to some experts recent break-throughs in production promise to reduce costs by 40% while increasing panel productivity by more than half.

Biomass is another area which has exciting potential for investment which involves turning plant, animal and even industrial waste into power. CVC is currently negotiating to acquire control of a substantial business which will be a key building block in putting together an exciting biomass power company over the next five years.

We are pleased with the successful merging of our long-term investment in Tetley Medical Limited into Vita Life Sciences Limited and the resulting substantial appreciation in the capital value of that investment. Vita Life Sciences Limited will be a core strategic investment for CVC and we see potential for further growth in the capital value of our investment over the next two-three years, especially if we finally achieve US Federal Drug Administration ('FDA') registration for the Technegas product range.

It is exciting that the strategy of CVC's involvement in the venture capital industry is now being vindicated. We are thankful to our shareholders who have supported us during the past 15 years since the Company's formation. It is gratifying to reflect that our original investors have achieved an Internal Rate of Return on funds invested of 16% over that time. These results would have been better if we had not had the constraints of the MIC Act to work within during the company's first decade of existence.

Whilst our long-term portfolio has not been strong in the area of Information Technology (IT) and the Internet, this reflects our bias towards always being a value investor rather than focussing on momentum plays which are based upon the public's love affair with the so-called New Economy. Contrary to many experts, we believe in the fundamental strategy of sound investment and that the New Economy has not brought any new paradigm of investment philosophy into being. However CVC has made substantial

profits on the sale of first class new technology investments such as Powerlan Limited and KAZ Computer Services Limited as we believed their market prices were not sustainable in the short term.

The value of IT and the related Internet lies in the capacity of that technology to store, analyse and communicate information on a global basis at virtually negligible cost. As some experts have put it, "Information Technology and the Internet amplify brain power the same way that technologies of the Industrial Revolution amplified muscle power". *The Economist* magazine has argued that railways, telegraph and electricity brought about more dramatic changes than the Internet. Nevertheless, there can be little doubt that IT is boosting economic growth and investments in this area can be extremely rewarding, as CVC has already experienced, and in part our profit reflects the results achieved to date. CVC is currently putting together an investment which will give our shareholders further exposure to this area.

Sunland Group Limited's Versace Hotel franchise has also been a notable achievement and showing the power of a brand name in the property sector is a testament to the strategic thinking of Sunland's Managing Director, Mr Soheil Abedian. CVC is confident that our long-term investment in this company will continue to show high returns for the foreseeable future.

CVC is thus well-placed with a well-rounded portfolio of growth investments which will ensure that our results for the forthcoming financial year should exceed what has been achieved for the year ended 30 June 2000.

I would particularly like to thank my fellow directors for their contributions and make special mention of Mr Sandy Beard who is a driving force in the development of CVC. I would also like to thank Mr John Read, who is stepping down from executive involvement, for the outstanding contribution he has made over the past 15 years.

Vanda Gould
Chairman

12 October 2000

REVIEW OF OPERATIONS

Our Approach

In 1985 CVC adopted an investment philosophy of “funding the future” wherein we actively seek to invest in companies and management teams that demonstrate significant profit growth characteristics to build quality Australian companies capable of being listed on recognised stock exchanges. Our approach is to complement the strengths of the companies in which we invest by the injection of strategic management skills and by our value investing skills honed over the past 15 years.

During the year ended 30 June 2000 our approach has resulted in the successful listing of one of our earliest investees, Tetley Medical Limited (Tetley) at a substantial increment to book value, the listing of three other quality Australian companies, the successful identification of an acquisition target for Macarthur National Limited and its subsequent relisting as Vita Life Sciences Limited (Vita). We continue in the development of other investee companies who in time will emerge as viable listed companies.

Our investment management skills, coupled with a patient investment style, have ensured that shareholders reap maximum rewards from the growth of investee companies. For example, it was our belief that premature realisation of our investment in Tetley would have been detrimental to the interests of shareholders despite opportunities presented over the past ten years. Our belief has been vindicated in the acquisition of Tetley by Vita Life Sciences, which has already resulted in a substantial capital gain on partial sale and allows us to participate in future growth.

Our Investments

Our portfolio reflects a diversity of industries and growth stages to achieve a balance of earnings yield and growth investments to maximise returns to shareholders. Whilst our focus is on the development of growth companies, we balance the portfolio with investments in strategic listed equities and with the provision of short term structured finance to a number of leading property developers. In providing finance to property related investments we utilise the same disciplines and philosophy as for investments into

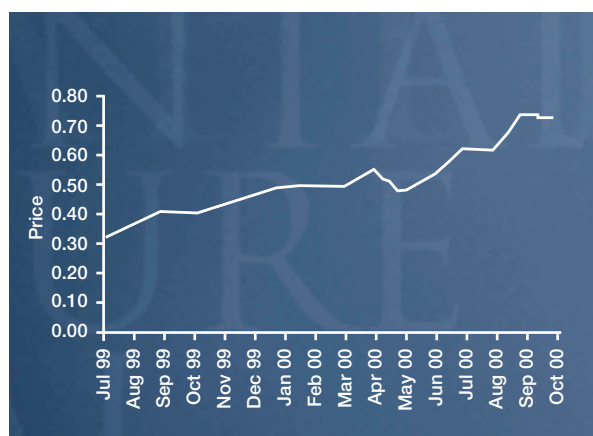
other growth companies, namely a strong management team with a compelling revenue model, strong marketing differentiation and ability to deliver internal rates of return in excess of 25% per annum. This approach is typified in the unique development of Sunland Group Limited's (Sunland) Palazzo Versace whereby Sunland developed and marketed the world's first branded residential and hotel development with spectacular success. Since our initial investment in 1994, Sunland has achieved profit growth in excess of 20% per annum and their share price has risen from an IPO of \$0.50 to in excess of \$2.40.

Vita Life Sciences: CVC owns 14 % of the issued capital of Vita Life Sciences (Vita) as a result of its direct holding in Macarthur National Limited and Vita's acquisition of CVC's shareholding in Tetley Medical Limited. Vita Life Sciences re-listed on the Australian Stock Exchange in April 2000 at an issue price of \$1.00 per ordinary share. Since listing Vita has traded at levels up to \$2.15 and has exceeded prospectus trading forecasts for the half year ended 30 June 2000.

Vita operates two divisions, Vita Health and Vita Medical with combined forecast revenues of \$38 Million and profit after tax of \$4.79 Million for the year ending December 31, 2000. Vita Health is a leading manufacturer and distributor of vitamins and health products in East Asian markets whilst Vita Medical develops, manufactures and distributes proprietary devices and ancillary consumables for the diagnosis of pulmonary embolism and is developing a suite of products based on its core technology for the diagnosis of a range of life threatening conditions.

Sunland Group Limited: CVC owns 34% of the issued capital of Sunland Group Limited (Sunland). In the year to 30 June 2000, Sunland realised a net operating profit of \$12.1 Million on revenues of \$147 Million. The profit represents an increase of 15% over the prior year. Sunland successfully completed the development of the Palazzo Versace Hotel and residential apartments during the year, an impressive achievement demonstrating the commercial viability of badging property as a premium product. We look forward to Sunland achieving even greater success as it moves the concept to prime international locations.

CVC Share Price



Probiotec: CVC is the holder of a \$900,000 secured convertible note in the Probiotec Group of companies attracting a base yield and convertible into ordinary shares at the election of CVC. The group specialises in the manufacture and sale of specialised dairy proteins, raw materials for vitamin products and nutraceuticals. The Group experienced revenue growth of approximately 100% and profit growth of 20% during the year ended 30 June 2000 and is continuing to experience strong growth. As the Group expands there will be further capital requirements at which stage CVC may elect to convert its equity holding and proceed towards an initial public offering.

Strategic Listed Investments:

CVC holds a strategic portfolio of listed investments including participation in initial public offerings. The year ending 30 June 2000 was particularly strong with investments in Powerlan, Stargames, Kaz and Objectif achieving internal rates of return in excess of 200%. The portfolio provides development capital to a blend of companies targeted for their growth potential and currently includes investments in mining, manufacturing, energy, logistics and transport, building products, biotechnology, information technology and communications. The portfolio provides a source of liquidity, franking credits and superior current returns as well as paving the way for future investment opportunities.

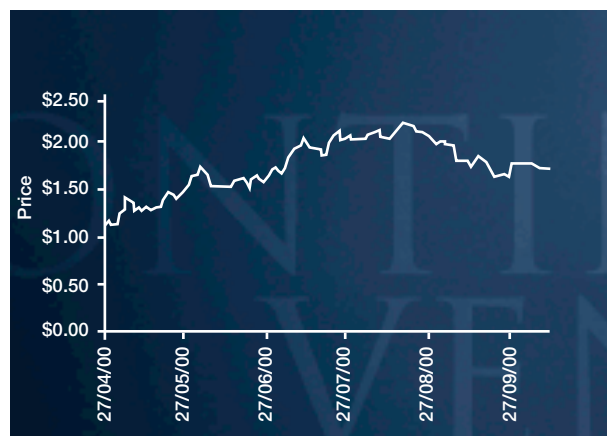
REVIEW OF OPERATIONS (CONT'D)

Property Financing Investments:

In providing finance to property related investments we utilise the same disciplines and philosophy as for investments into other growth companies, namely a strong management team with a compelling revenue model, strong marketing differentiation and ability to deliver internal rates of return in excess of 25% per annum.

CVC's property related investments continued to provide a strong source of profits during the course of the financial year and will continue to show solid regular returns enabling us to balance our portfolio of growth businesses which do not provide short term returns. Our exposure to property however is being reduced as satisfactory opportunities are becoming very rare. CVC's interests include the following:

- *Legends Hotel:* The Legends Hotel is a 403 room hotel located on Queensland's Gold Coast. CVC earns interest monthly on invested funds and a 25% share of the surplus from operations.
- *Regatta Point:* This four stage development located in the proximity of the Sydney Olympic Site at Cape Cabarita in Sydney's inner west continued to be marketed during the year. CVC earns monthly interest on invested funds and a share of the development profit. CVC anticipates that the project will finalise, and the majority of development profits will be earned, during the 2001 financial year.



VSL Share Price

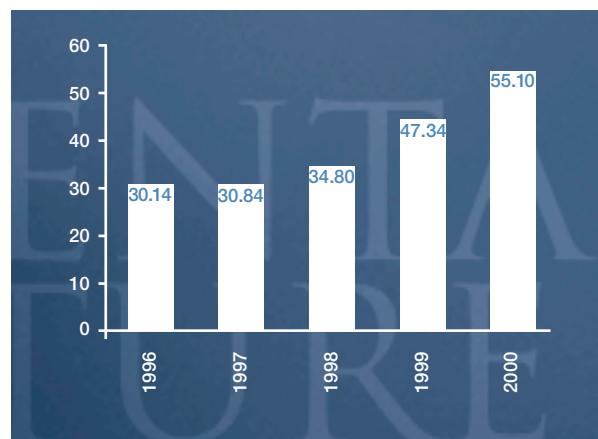
- *Bel Air and Chevron Developments:* These two developments located on Queensland's Gold Coast are retail developments in which CVC will derive interest, capital appreciation and an ongoing rental stream from holding a direct interest in the retail property.

Our Focus

CVC seeks to provide patient capital to outstanding managers who have developed, or are developing, companies with significant growth opportunities, and with the potential for ultimate realisation via an initial public offering or trade sale. In identifying appropriate investee companies we seek a revenue model which has the characteristics of being scalable, recurrent and defensible. Additionally we look for opportunities whereby a new opportunity has a synergistic fit with our existing portfolio or whereby the CVC management team can provide complementary skills to the existing management team.

Whilst companies experiencing strong growth are our preferred investment candidates, CVC has considerable experience in the restructuring and turning around of under performing or distressed companies. CVC believes that substantial investment opportunities currently exist in this area and will continue to develop as the economic cycle deteriorates.

Availability of quality deal flow is essential to the development of successful investment opportunities and their eventual realisation. We have devoted significant effort over the past 15 years in developing networks of advisers, consultants and other contacts for the identification, referral, structuring, vetting and nurturing of potential investments. As we continue to expand these networks, and the value of venture management expertise is more widely acknowledged, we believe that the quality of investment opportunities will continue to increase.



Net tangible assets per share

Our People

Over 15 years CVC has developed an expertise which we believe is unparalleled in the Australian Venture Capital industry. During this period CVC has maintained essentially the same senior management team, has structured over 60 individual investments, reviewed over 5,000 business plans, successfully concluded over 15 initial public offerings of investee companies and over 15 trade sales. This experience uniquely positions CVC to maximise investment opportunities both within the existing portfolio and when identified through our sources of dealflow.

CVC's management expertise spans all facets of business expertise and on a number of occasions CVC staff have been appointed as either managing director or senior managers of an investee for a specific commercial objective. We believe that the experience to which CVC's management team is exposed develops a unique set of skills and a loyalty to the business fundamental to CVC's ongoing success.

DIRECTORS' REPORT

Your Directors present the Financial Statements of Continental Venture Capital Limited (CVC) and the consolidated Financial Statements of the Consolidated Entity being the Company and its controlled entities, for the year ended 30 June 2000 together with the Auditors' Report thereon.

Directors

The names of Directors in office at the date of this report are Vanda Russell Gould (Chairman), John Scott Leaver, John Douglas Read and Alexander Damien Harry Beard.

Directors' Meetings

The number of Directors' Meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

	Directors' Meetings		Audit Committee Meetings	
	No of meetings attended	No of meetings held	No of meetings attended	No of meetings held
Vanda Russell Gould	7	7	–	–
John Scott Leaver	7	7	–	–
John Douglas Read	6	7	2	2
Paul Geoffrey Brazenor*	4	6	1	1
Alexander Damien Harry Beard**	–	–	–	–

*Paul Geoffrey Brazenor resigned as director on 01/05/2000

**Alexander Damein Harry Beard was appointed as director on 17/08/2000

Principal Activities

The Company's principal activity is the provision of investment capital to companies with substantial profit growth prospects.

The principal activities of companies to which capital has been provided include waste management, tourism, internet, infrastructure and services, biotechnology, building products, vitamins and nutraceuticals and information technology products and services.

The principal activities of the corporations in the Consolidated Entity during the year were manufacture, distribution and sale of health and medical devices, nutritional and nutraceutical products, financing and property related investments.

Review of operations

The Chairman's Report, Review of Operations and the annexures to the Financial Report contain details of the Consolidated Entity's operations during the year.

Consolidated result

The consolidated profit for the year attributable to the members of CVC was:

	2000	1999
	\$	\$
Operating profit after income tax	10,225,782	7,941,070
Outside equity interests	(103,279)	(209,078)
Operating profit and extraordinary items after income tax attributable to members	10,122,503	7,731,992

Dividends

As proposed and provided for in last years report a final ordinary dividend of 1.00 cents per share amounting to \$1,119,229 in respect of the year ended 30 June 1999 was paid on 25th of October 1999.

The Directors have declared a final dividend in respect of the year ended 30 June 2000. The dividend is 1.25 cents per share, fully franked with class C (36%) franking credits, to be paid on 3rd of November 2000. Total dividends provided for in respect of the year ended 30 June 2000 is \$1,371,700.

State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Economic Entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated accounts.

Likely developments

The likely developments in the operations of the Consolidated Entity will involve an increase in the range of investment activities undertaken with the emphasis on obtaining higher yields. The profitability or otherwise of those investments cannot be meaningfully predicted at the date of this Report.

Events subsequent to balance date

The Company made certain investments and loans in support of its existing investee businesses, acquired various short term interests in listed equities and realised a portion of its short term investments as part of its ordinary course of business subsequent to balance date.

Other than the matters discussed above, and in note 32 of the financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in subsequent financial years.

Information on Directors

Vanda Russell Gould (Chairman)

B.Comm (Uni. of NSW). M.Comm (Uni of NSW)

Fellow of the Institute of Chartered Accountants in Australia, Fellow of the Australian Institute of Certified Public Accountants, Licensed Securities Dealer.

Chairman of Vita Life Sciences Limited and CVC Investment Managers Pty Limited and a director of numerous private and public companies including educational establishments.

John Scott Leaver (Managing Director)

B.Ec. (Uni. of Sydney)

Licensed Securities Dealer.

Board member since 1984. Chairman of Sunland Group Limited. Director of CVC Investment Managers Pty Limited.

DIRECTORS' REPORT

John Douglas Read (Non Executive Director)

B.Sc. (Hons.) (Cant.), M.B.A. (A.G.S.M.)

Fellow of the Australian Institute of Company Directors. Board Member since 1989. Director of CVC Investment Managers Pty Limited.

Alexander Damien Beard (Non Executive Director and Company Secretary)

B Com. (Uni. of NSW).

Associate of the Institute of Chartered Accountants in Australia. Director of numerous private and public companies.

Share Options

No director has received, been granted or exercised any options during the year.

No shares have been issued by virtue of the exercise of an option during the year or to the date of this report. Accordingly, there are no unissued shares for which options are outstanding at the date of this report.

Directors' interests and benefits

The relevant interest of each Director in the share capital of the Company as at the date of this report is as follows:

	Ordinary Shares
Mr V.R. Gould	14,592,698
Mr J.S. Leaver	14,563,082
Mr J.D. Read	14,126,444
Mr A. D. H. Beard	10,636

At the date of this report no Director held an interest in the share capital of any controlled entities, other than Sunland Group Limited.

Directors benefits are set out in Notes 7 and 25.

Indemnification and insurance of officers and auditors' indemnification

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying such persons against a liability, including costs and expenses in successfully defending legal proceedings.

Insurance premiums

The Company has not, during the year or since the end of the financial year, in respect of any person who is or has been an auditor of the Company or a related body corporate paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses of defending legal proceedings.

Continental Venture Capital Limited has paid insurance premiums in respect of directors and officers liability and legal expense insurance for directors and officers of the Company, its controlled entities and certain other directorships of associated companies.

In accordance with subsection 300(9) of the Corporations Law further details have not been disclosed due to confidentiality provisions contained in the insurance contract.

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

Dated at Sydney this 12th day of October 2000.

Vanda Russell Gould
Director

Alexander Damian Beard
Director