

Chairman's Opening Statement

My own assessment of the short history of the company, made over recent months, is that it has delivered on its R&D commitments since listing 1997.

The next challenge, the immediate challenge, is to now deliver on commercialising the technology.

The board has recognised that the shift in emphasis required to succeed in this transition must begin with the right people. The directors have sought to widen the skill set of the board.

In an important appointment last year, Keith Daniel joined the board to contribute his outstanding experience in commercialising medical devices.

More recently, the board has recognised the need to access wider commercial experience, in order to harness the achievements of the past year.

My appointment, and that of Tony Rogers who has very significant experience in industry, will create an ongoing board with a majority of non-executive directors with strong commercial experience.

I want to acknowledge at this time the contributions of Professor Ray Martin, and Doctor Alan Finkel, both of whom will step down from the board at the conclusion of today's meeting.

Professor Martin was the inaugural Chairman of the Company. He has led the company through the challenging early years of research and development, and has guided the board and management with a focus on achievement of the key product development goals. His stewardship of Optiscan through its formative years as a public company are to be commended. He is passing on the baton at a time when new skills are required to take the company to the next level. His contribution has been outstanding and we wish him well in his retirement.

Dr Alan Finkel is also a founding director of the company. Alan's experience in medical devices, and the US market have been invaluable to Optiscan as it developed through the early years. Alan's commitment to the company is reflected in his impeccable record of attendance at board meetings. Although he spends a great deal of his time in the USA, he has rarely failed to be present at a meeting of the board, even if he is sitting up late at night on a telephone conference call. Alan's contribution to the board will be missed, and we record our deep gratitude for the contribution he has given to the company.

As we seek to enhance our skills in the company your new board is now actively involved in the next stage of this process, the search for a new CEO.

Peter Delaney has expressed the view that the company's focus on commercialisation will be best served by a CEO who is dedicated to the role. Peter has always been intricately involved in the technology, and has an extensive knowledge of the potential applications. He has advised the board that he wishes take charge of technology and applications, and a new CEO will be engaged to drive the commercial challenges.

The board looks forward to Peter's unique and invaluable contribution to the company, and records its appreciation of his efforts as CEO over the past five years.

The search for a new CEO is well under way, and we hope to make an announcement shortly

This new appointment will provide strong, commercially focussed leadership, and with Peter Delaney heading up technology and applications development and with the recent engagement of Robert Law as head of R&D, we will enter the new year with a broadly based and experienced management team.

The board is confident that this structure will provide the skill set and capability necessary to implement and manage the comprehensive program of activity to be undertaken in 2003.

The ground work has been done, and the focus will now be on performance.

Looking back over the past twelve months, the company achieved some very considerable milestones.

Most importantly, it defined three product groups, and a commercialisation program for each. It formed a number of key partnerships which will assist in taking the company's technology to the world market.

The key achievements in 2002 were:

- The agreement with Pentax worth up to \$20 million for the development of confocal endomicroscopes,
- The international market release of the Stratum skin scanner; including establishment of the first user sites and the implementation of education and training programs as part of the market development strategy;
- The development of clinical grade prototype rigid endoscopes., the third product group to be derived from the company's core technology;

Only 12 months ago, Optiscan was perceived as a single product company with a focus primarily on Stratum.

We now have three product groups, the Flexible endo-microscope, the rigid endo-microscope, and the Stratum. Each of these products has its own unique characteristics, and paths to market.

The Stratum is primarily aimed at applications in dermatology research. It features a hand held compact probe which is placed against the skin to reveal microscopic details several cell layers beneath the surface.

The Flexible endo-microscope is a more miniaturized version that can be integrated into a conventional endoscope. It can be used for diagnosis and monitoring of disease inside the body, such as colon cancer.

The rigid endo-microscope uses the same technology and can be modified for a variety of applications including gynaecology and orthopaedics.

The establishment of the expanded product base has been a significant achievement in the past year. It does however, increase the workload and provide competition for resources.

I would now like to turn our attention to the issues the Company will be pursuing over coming months.

There are some critical decisions to be addressed in the near future.

We must firstly rank and prioritise our commercial opportunities. The Pentax project must be successfully completed in order to achieve the final tranche of the upfront payments. Equally importantly, that will also open the way to releasing the product to the endoscope market.

We must realise the licensing opportunities inherent in the range of applications that exist for rigid endoscopes. Once again, the opportunity to capture some initial licensing payments is important, but so too is accessing another path (or series of paths) to market for our technology.

We must undertake a careful assessment of the short-term opportunities for the Stratum dermatology application. There is potentially a substantial market to be tapped, but it is becoming increasingly evident that it will not happen overnight.

Your board must therefore balance the allocation of resources between the alternative applications of the technology, and we have therefore changed the priorities, with the primary focus on Pentax. The other two product streams must of necessity receive less focus, and perhaps less resources.

We will be assessing the medium and long-term future of our manufacturing activity, and we will be seeking partners to access international markets.

In the meantime, I want to assure you, our shareholders, that this company is ready to address its commercial challenges.

The new board, soon to be joined by a new CEO, will be conducting a thorough and impartial assessment of the short term and longer-term alternatives available to the company. As we move into 2003, we will keep you apprised of our progress in this important endeavour.

I would now like to turn to the issue of remuneration and performance of the board.

The Board and management acknowledge that the matter of share options for employees and directors of corporate entities is a contentious issue at present. I think it is important that we explain to you the rationale for our proposal.

Going forward the company will have 3 non-executive directors who will be remunerated solely by directors fees. There will be no bonuses, retirement benefits or compensation other than performance based options. Every member of the board will be asked to make a major commitment of time and skill to assist the management in achieving the company's goals.

All non-executive directors will participate on board committees, including the Audit committee, nomination and remuneration committee.

The directors will also have special responsibilities for both monitoring and mentoring various aspects of the company's activities.

- Keith Daniel will be involved in R&D and marketing,
 - Tony Rogers in sales , marketing and finance.
 - I will be involved in operations and finance, as well as weekly management reviews of KPI's and progress against budget.
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I wish to assure you your board will be very focused and will put in whatever time and effort is necessary to ensure we optimise the value of the company for all shareholders and stakeholders.

Before I conclude, I would like to take this opportunity to thank our staff and management for their efforts and contribution over the past year.