Annual Report 2010

biota

BIOTA HOLDINGS LIMITED ABN 28 006 479 081
Annual report – 30 June 2010

HIGHLIGHTS

- **Relenza royalties $63.7 million, a record year**
- **Net Profit $16.2 million**
- **$20 million returned to shareholders**
- **Cash position strengthened: $104.9 million at 30 June 2010**
- **Second generation influenza drug, laninamivir, shown to be effective for the treatment of influenza in Phase III clinical trials in Asia, with New Drug Application filed in Japan in February 2010**
- **Pipeline strengthened and broadened with the acquisition of the antibacterial research assets of Prolysis and MaxThera**

EVENTS SUBSEQUENT TO 30 JUNE 2010

- **Human rhinovirus (HRV) Phase IIb trial of BTA798 commenced**

CONTENTS **PAGE**

CORPORATE DIRECTORY

Directors

Jim Fox – Chairman
Paul Bell
Peter Cook – Chief Executive Officer
Jeff Errington
Ian Gust
Richard Hill
Grant Latta

Company Secretary
Damian Lismore – Chief Financial Officer

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Stock Exchange

Australia
Biota Holdings Limited is a public company listed with the Australian Securities Exchange. ASX:BTA

US
Biota shares are traded in the US via American Depositary Receipts. ADR:BTAHY

CHAIRMAN'S & CEO'S REPORT

HIGHLIGHTS

The year has seen a number of significant achievements:

- Record royalties from Relenza as a consequence of the global swine flu pandemic;
- Laninamivir's New Drug Application lodged with the Japanese Health authorities in February 2010, paving the way for a timely introduction into the Japanese market;
- The company's development pipeline broadened and strengthened with the successful acquisition and integration of the antibacterial assets of Prolysis (UK) and MaxThera (USA);
- A capital return of $20 million to shareholders; and
- Policy of strong financial control in a continuing environment of economic uncertainty.

FINANCIAL REPORT

This year Biota achieved a profit after tax of $16.2 million. This was a solid outcome compared to the $38.2 million of the previous year, (which included $20 million in settlement from the GSK litigation) and considering the higher level in portfolio investment. An $18.2 million increase in cash to $104.9 million at the end of the year holds the company in a strong cash position. Profit before tax was $20.2 million (F2009 $41.8 million), with an income tax expense of $4.0 million.

Revenue from continuing operations was a record $67.6 million (F2009 $60.6) reflecting the highest ever royalties received from GSK on sales of Relenza during the swine flu pandemic. Other income of $3.9 million (F2009 $22.8) was grant income from the US NIH, while the F2009 figure included $20.0 million in settlement from the GSK litigation.

R&D costs increased to $21.7 million from $13.3 million in the pervious year due to the growth in the company's project pipeline, principally due to the antibacterial programs acquired from Prolysis and MaxThera. An additional $8.8 million (F2009 $nil) was expensed as the amortisation costs of these programs' acquisition.

The improvement in the cash position is after the payment of a $20 million capital return to shareholders in December 2009.

STRATEGY

Biota's business activity is the discovery and development of small molecule anti-infective drugs for human use. We are a highly specialised company which undertakes and focuses on the earliest stages of human drug development before licensing the resultant intellectual property to larger pharmaceutical companies to then manufacture and market. As a generalisation, Biota licenses at an early stage of clinical development, in recognition of the improved cost/risk profile this achieves.

Biota seeks to have two or three compounds in market generating royalties and has recently extended its development pipeline to facilitate that objective.

OPERATIONS

Relenza

Biota licensed zanamivir, the world's first in class neuraminidase inhibitor, to Glaxo (now GlaxoSmithKline) in 1990; this compound was subsequently marketed as Relenza in 1999. GSK hold exclusive rights to manufacture, market and sell zanamivir globally.

Royalties for Relenza this year were a record $63.7 million up from $45.0 million last year. The strong result was a consequence of governments' response to the WHO declared pandemic of H1N1 influenza in April 2009. While international concern has abated, with the WHO declaring a move to a post-pandemic phase on 10 August 2010, many countries found their health system heavily stressed and often at or close to peak load during the pandemic. Optimal size, deployment and composition of national antiviral stockpiles remains a matter of public health concern. The threat of an influenza pandemic remains ever present.

National stockpiles have generally increased over the year, in part due to the rapid increase in peak capacity provided by GSK for Relenza and Roche for Tamiflu and in part by slow deployment of drugs during the pandemic. GSK increased its capacity to 190 million courses per annum during the pandemic. This improved peak capacity should prove to be of significant advantage to governments in the future as it should ensure that higher peak demands can be met, should the need arise.

Influenza outbreaks are highly variable in terms of severity, frequency and morbidity. Despite the life saving nature of Relenza and its many clinical advantages, the market will continue to be volatile, unpredictable and difficult to forecast.

LANI

Biota's long acting neuraminidase inhibitor (LANI) program, is a second generation influenza anti-viral which address the limitation of the current products, which require daily or more frequent dosing. The ability to dose patients on a "one and done" basis for treatment and once weekly for prevention, offers a number of potential benefits. These include that the patient being more likely to use the product as and when intended and a reduced cost of storage and deployment, where the product is intended to be stockpiled.

In 2003, Biota and Daiichi Sankyo merged their respective LANI programs. Under the co-ownership agreement, Daiichi Sankyo held an option to manufacture and sell laninamivir octanoate, the generic name of the program's lead compound in Japan, in return for funding an extensive range of Japanese clinical trials.

Based on the success of these studies, Daiichi Sankyo is seeking approval from the Japanese regulatory authority to market laninamivir in Japan and lodged a New Drug Application in February 2010. Approval time may take up to 12 months.

The co-ownership agreement with Daiichi Sankyo, provides Biota with royalties on sales in Japan and a series of fixed sum payments on the achievement of specified sales milestones. Daiichi Sankyo has indicated its intention to have a 3 million course capacity available in the first season after launch and 10 million in the following, once approved for sale.

During F2010 Biota also completed the last of the currently planned western clinical studies, funded by the US NIH ($1.4 million). These studies were required, at least in part, to support the future registration of laninamivir in North America and Europe.

Rest of the World licensing discussions have been active and remain so. The swine flu pandemic has provided a confusing overlay; initially encouraging a high level of interest from potential licensees which became less urgent as the swine flu threat ameliorated. In response many governments sought rapid pandemic influenza with some orders cancelled when the threat receded. While this did not affect neuraminidase inhibitors' orders, such commercial responses from governments after the industry has heavily invested to meet an emergency, may detract from other similar product development investments.

Biota is confident that laninamivir is a product with many patient attributes and with value that can be realised to the benefit of shareholders. We continue to negotiate with prospective licensees and along with our co-owner Daiichi Sankyo, to explore other options capable of delivering value.

We will continue to keep shareholders updated to the extent possible, during sensitive commercialisation negotiations.

RSV

Biota has been active with its respiratory syncytial virus program for a number of years. Its initial lead compound BTA9881 was initially licensed to MedImmune Inc., now part of AstraZeneca, in December 2005. Past Annual Reports have detailed the upfront, milestone and collaboration payments received for this compound, before it was returned to Biota in 2009.

The concerns held by AstraZeneca that resulted in the return of the program we believed would prove to be compound specific. Biota's judgment was that other similar agents, already part of our program and only at a slightly earlier stage in development, would not be affected.

As a result, Biota committed up to $3.0 million over the near term, to this program. In the terms of our medicinal chemists, the new compounds would come from different "scaffolds" and would be protected by additional and separate patents.

Considerable progress has been made this year on achieving this goal, ahead of plan. Recent experimental work confirms our view that the concerns were most probably limited to BTA9881 and more than one of the new scaffold compounds has demonstrated a much improved profile.

As well as can be forecasted in the development of a new drug, it would appear that within F2011 and well within the budget previously advised, the program should have advanced to the point where re-licensing should be able to commence. There have been no competitive developments of which we are aware, that would suggest that licensing prospects remain favourable.

HRV

Human rhinovirus (HRV) infections are frequently associated with the common cold, a mild and self limiting disease in otherwise healthy individuals. However, there is a mounting body of medical opinion that links rhinovirus infection in patients with lung disease with exacerbations which require significant medical intervention to reinstate control of the underlying disease. In such patients the rhinovirus may prove to be one of the direct contributory causes of the underlying medical condition becoming chronic.

Proof-of-concept in humans for our lead compound BTA798 was successfully demonstrated in June 2009, by reducing the incidence and severity of an induced HRV infection in healthy subjects. On 26 July 2010 Biota announced the commencement of a US based Phase IIb study in patients with chronic asthma, designed to establish the impact of BTA798 on cold and asthma symptoms when given shortly after the onset of an infection.

The trial has been budgeted to cost up to $25 million over two years.

The originality of the clinical concept has required considerable attention be paid to the trial design and a number of major pharmaceutical companies have provided valuable input. Potential partnering discussions have confirmed the need for a product with the profile of BTA798 in asthmatics and Biota's investment, assuming a successful outcome, should significantly enhance the value of the program at licensing.

The pipeline assets of Prolysis and MaxThera

During the year Biota acquired the assets of two drug discovery companies focused on the development of antibacterial agents for the treatment of antibiotic resistant infections. Resistant infections are of increasing concern both within hospitals and the general community. The popular press frequently provides coverage of "super-bug" outbreaks, particularly in public hospitals or, "multiple drug resistant bugs" and even though this is frequently sensationalised, the problem is of significant medical and community concern. Both companies are targeting this market need as their ultimate objective. Each company has more than one drug discovery program to achieve this goal, with each program focussed on one of the many different possible ways of destroying a bacteria. Both investments were made to expand Biota's discovery and development pipeline with the long term intention of increasing the number of royalty generating products in market. The two assets were purchased for a combined cost of $12.5 million of which $11.1 million was in shares. Biota expects to invest up to $42.0 million over the next five years in pursuing the antibiotic resistance market opportunity.

Each development program focuses on a novel target, which if disrupted through the action of the drug, would kill the bacteria. These targets usually are chemical processes unique to bacterial life, not used by mammalian cells and are not the targeted site of action of current antibiotics.

Generally, there is insufficient space in the annual report to cover the many early programs within Biota at the pre-clinical or investigative stage. However, shareholders with a scientific interest may appreciate some insight into the programs. Only the three most advanced projects are specifically identified and are named from the site targeted. However the assets purchased cover at least twenty similar potential programs.

The programs are identified by their target site.

Gyrase (GYR)

Bacterial chromosomal DNA is super-coiled to fit into the bacterial cell. DNA gyrase and topoisomerase IV are the two enzymes responsible for the coiling and un-coiling processes, specifically holding, breaking and re-joining the DNA strands during twisting and untwisting processes. Both enzymes are necessary at each replication cycle and both are independently essential for bacterial survival. However, the high degree of similarity of the gyrase and topoisomerase enzymes theoretically allows an inhibitor to target both essential enzymes at the same time.

Successful dual targeting would result in a low spontaneous resistance frequency as the bacteria would need to undertake two simultaneous mutations to become resistant.

FtsZ Cell Division Inhibitor (CDI)

Staphylococci are major human pathogens and of its many species *Staph. aureus (or "golden staph")* is the most virulent and the most notorious of the multi drug resistant pathogens. These pathogens are frequently referred to in the popular press as MRSA, the acronym for methicillin resistant *staph. aureus.*

One of the essential steps necessary for replication of staphylococci involves the assembly of a new cell wall between the two daughter cells. This occurs in a specific sequence starting with the filament temperature sensitive protein Z (FtsZ). These protiens assemble at the wall around a mid-line of the cell and undergo polymerisation to form the Z-ring, which ultimately recruits necessary proteins to form the new cell wall and allows the daughter cells to separate.

FtsZ is an attractive but as yet under exploited target for novel antibacterial discovery.

Phosphopantetheine adenylyltransferase (PPAT)

All cells require energy to power the multitude of chemical processes that occur within them. By far the most widespread enzyme associated with energy deployment in cells is coenzyme A (CoA) which is involved in many essential metabolic functions. A key step in the biosynthesis of CoA is catalysed by the enzyme PPAT, which has a structurally and functionally distincy counterpart in man.

Inhibition of bacterial PPAT is therefore likely to be highly selective for and is an excellent target for drug development.

OUTLOOK

Biota has emerged from the period of the GFC with a strong cash position from retained earnings. This has been a deliberate policy to manage the unpredictability of royalties from the influenza market, our principle source of revenue.

Given the recent move by the WHO to a post pandemic phase , it is unlikely that the buoyant sales of Relenza enjoyed in F2010 will be repeated in the near term. However, influenza remains as unpredictable as ever.

Additionally, the GFC has for the moment tempered the market for our innovative products. Our customers, the large pharmaceutical companies are to a greater or lesser extent dependent on government health systems for a considerable portion of their revenue. Concerns have been expressed from a number of quarters about the pressure on health care costs following the GFC and its resultant deficits, with the need for governments to control costs in this significant area of expenditure. These pressures are introducing a level of caution for big pharmaceutical companies with their in-licensing strategies, but the fundamental need to replace their products coming off patent remains.

Notwithstanding the background environment, innovative products will remain in demand. We are confident that our portfolio's value will continue to build and provide shareholders with an appreciating asset.

In the short term, the pharmaceutical industry's economic environment may need Biota to extend its investment in some specific programs slightly further than usual and therefore F2011 will be a year of investment. The pipeline has been significantly increased to ensure sufficient projects reach the critical licensing stage expediently and ultimately are successful in their respective markets. Of particular note here is the investment, principally this year, in our HRV Phase IIb study with BTA798.

We also look forward to the approval of the New Drug Application in Japan and the subsequent launch of our second royalty generating product.

The Board was delighted to have recommended a $20 million capital return to shareholders during F2010 and is mindful its obligations for appropriate capital management. The Company is committed to advancing its programs with many of the key investment decisions made and committed to in F2010, as previously advised. However, the royalty stream from Relenza declined significantly during the last quarter and there is some uncertainty around future royalties in the aftermath of the swine flu pandemic. Under such circumstances the Board intends to preserve capital and review the payment of any dividend after the first six months results are to hand, by which stage there will be greater clarity on royalties, the progress of key programs and following the company's tax payment in February 2011, when the position on franking credits will have been established.

The Board is confident that progress is being made on all projects. The LANI registration process is well underway in Japan, the Phase IIb clinical trial on HRV has commenced and the renewed RSV program is ahead of plan. While the outlook for Relenza royalties is uncertain on the near term, the product has between four and nine years of patent protection in key markets and will continue to be a valuable product to the Company over that time.

We wish to thank our many shareholders who have been supportive of furthering Australian innovation and science by their association with Biota, our staff for their creativity and dedication and to our fellow directors for their considerable counsel.

Jim Fox
Chairmain

Peter Cook
CEO

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group), consisting of Biota Holdings Limited (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2010.

DIRECTORS

The following persons were directors of Biota Holdings Limited during the financial year and up to the date of this report:

Dr Jim Fox (Chairman)
Mr Paul Bell
Mr Peter Cook
Professor Jeffery Errington
Professor Ian Gust
Mr Richard Hill
Mr Grant Latta

Professor Jeffery Errington was appointed as a director on 1 February 2010 and continues in office at the date of this report.

PRINCIPAL ACTIVITIES

The principal continuing activity of the Group during the financial year was drug discovery and clinical development of anti-infectives, suitable for human use and its commercialisation.

REVIEW OF OPERATIONS

The Group result for the year ended 30 June 2010 was a net profit after tax of $16.2 million (2009: profit of $38.2m). Profit before tax was $20.3 million (2009: profit $41.8m).

Total revenues were $71.5 million, down from $83.3 million in 2009. Total revenues included $63.7 million of Relenza royalties (2009: $45m), collaboration income from licensing agreements of $1.4 million (2009:$12.6m), and grant income of $3.9 million (2009: $2.8m) from the US National Institutes of Health for the development of LANI.

Costs increased to $51.2 million (2009: $41.5m) principally through the increased research portfolio. Amortisation costs in relation to the acquisition of Prolysis and MaxThera was $8.8m. In 2009, litigation costs were $7.2 million.

Cash at 30 June 2010 was $104.9 million (2009: $86.7m).

DIVIDENDS

No dividend was declared during the year and directors do not recommend the payment of a dividend.

CAPITAL RETURN

The company returned $20m to shareholders as a Capital Return. The payment was approved by shareholders on 12 November 2009, had a record date of 19 November 2009 and was paid in early December 2009. The payment equated to 11.18 cents per ordinary share.

EARNINGS PER SHARE

	2010 Cents	2009 Cents
Basic earnings per share	9.2	21.7
Diluted earnings per share	9.1	21.6

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 26 July 2010, Biota announced a Human rhinovirus (HRV) Phase II clinical trial was underway in patients with chronic asthma. Biota is budgeting to invest $25 million over two years on its HRV program and a successful trial outcome should significantly enhance the value of any future license.

Apart from the foregoing, no matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

(a) The Group's operations in future financial years;

(b) The results of those operations in future financial years; or

(c) The Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group will continue to undertake drug discovery and clinical development of anti-infectives suitable for human use and its commercialisation.

INFORMATION ON DIRECTORS AS AT 30 JUNE 2010

Jim Fox

BE M.Eng Sci., PhD
(Chairman, non-executive director)

Experience and Expertise
Jim Fox joined the Board in February 2009 and was elected Chairman. Dr Fox is a successful businessman with strong financial and commercial skills. He has significant experience in commercialising innovative technologies and growing a global business. He was formerly CEO of Vision Systems, a Melbourne based technology development company, which he led until its takeover by a large US based company, Danaher.

Other Current Directorships
Air New Zealand Limited.
TTP Group PLC (UK).

Former Directorships in the last 3 years
Optiscan Imaging Limited.
Elders Limited (formerly Futuris Limited).
ISoft Group Ltd.

Special Responsibilities
Chairman of the Board.
Member of the Remuneration and Nominations Committee.

Interest in Shares and Options
110,000 Ordinary shares in Biota Holdings Limited.

Paul R Bell

BA MA Hons
(*Non-executive director)*

Experience and Expertise
Paul Bell was appointed a director in September 2006. He has had an extensive executive career with the international pharmaceutical company Merck & Co Inc. Paul is a former member of Merck's Management Committee and was President of their Asia Pacific Human Health Division between 1997 and 2002. Prior to that, he was Managing Director of Merck Sharp & Dohme Australia Pty Ltd.

Other Current Directorships
Cochlear Limited.

Former Directorships in the last 3 years
Gropep Limited.
Bio-Link Partners Limited.

Special Responsibilities
Chair of the Remuneration and Nominations Committee.

Interest in Shares and Options
50,000 Ordinary shares in Biota Holdings Limited.

Peter C Cook

M.Pharm. FRMIT, PhC., MPS, MRACI, C.Chem., MAICD
(Chief Executive Officer and Managing Director)

Experience and Expertise
Peter Cook was appointed Managing Director and Chief Executive Officer in December 2005. He has had extensive experience in restructures, mergers and acquisitions, innovation and innovation commercialisation with technology-based companies and has a strong manufacturing background. He also has over ten years of international commercial experience in Europe, USA and Asia, where he has both lived and worked.

Peter was formerly Chief Executive Officer and Managing Director of Orbital Corporation Limited. He previously held the positions of Chief Executive Officer of Faulding Pharmaceuticals, President of Ansell's Protective Products Division, Deputy Managing Director of Invetech and Director of Research and Development for Nicholas Kiwi.

Other Current Directorships
Quickstep Holdings Limited.

Former Directorships in the last 3 years
None.

Special Responsibilities
Chief Executive Officer and Managing Director.

Interest in Shares and Options
141,200 Ordinary shares in Biota Holdings Limited.
1,169,872 Unlisted options over ordinary shares in Biota Holdings Limited.

Jeffery Errington
BSc, MA, PhD, FRS, FMedSci
(Non-executive director)

Experience and Expertise
Professor Errington was appointed in February 2010. He is a renowned scientist in the field of microbial cell and molecular biology and is a Fellow of the Royal Society. Jeffery is the Director of the Institute for Cell and Molecular Biosciences and the Director of the Centre for Bacterial Cell Biology at Newcastle University. He is a world authority on the biochemical pathways responsible for bacterial replication, an essential pre-requisite to the successful development of novel antibacterial drugs.

Other Current Directorships
Demuris Limited.

Former Directorships in the last 3 years
Prolysis Limited.

Special Responsibilities
Member of the Scientific Advisory Board.

Interest in Shares and Options
Nil.

Ian D Gust, AO
MD, BS, BSc, DipBact(Lond), FRCPA, FRACP, MASM, FTS
(Non-executive director)

Experience and Expertise
Ian Gust was appointed a director in July 2001. He has had a long and distinguished career in medical research and has received wide international recognition for his contributions to the field of virology.

Ian was the former Director of Research and Development at CSL Limited, a position he held for ten years (1990-2000). During this period he was closely involved in CSL's successful expansion in Australia and internationally. He is currently a Professorial Fellow, Department of Microbiology and Immunology, University of Melbourne, a consultant to the Bill and Melinda Gates Foundation, and a consultant to UNICEF, the World Bank and the World Health Organisation.

Other Current Directorships
Opal Therapeutics Pty Ltd.
Opal Therapeutics Inc.
Board of International Aids Vaccine Initiative.
Board of Paediatric Dengue Vaccine Initiative.
Bio 21 Australia Ltd.
Board of Australian International Health Institute.
Board of the Nossal Institutes of Global Health.

Former Directorships in the last 3 years
None.

Special Responsibilities
Member of the Remuneration and Nominations Committee.

Interest in Shares and Options
533,036 Ordinary shares in Biota Holdings Limited.

Richard Hill
BA, LL.B, LL.M
(Non-executive director)

Experience and Expertise
Richard Hill was appointed a director in November 2008. He was a founding partner of Hill Young & Associates and formerly held a number of senior executive positions in Hong Kong and New York with Wardley Holdings Limited, a wholly owned subsidiary of Hong Kong & Shanghai Banking Corporation. He is an Attorney in New York State, USA.

Other Current Directorships
Sirtex Medical Limited (Chairman).
Calliden Group Limited (Chairman).
Pelorus Property Group Limited.

Former Directorships in the last 3 years
None.

Special Responsibilities
Member of the Audit and Risk Committee.

Interest in Shares and Options
Nil.

Grant F Latta AM
BBus, MBA, CPA, FAICD, FAIM
(*Non-executive director)*

Experience and Expertise
Grant Latta was appointed a director in February 2006. He is an experienced company director and senior business executive with strong financial management, marketing and strategic skills which he has gained through a depth of successful domestic and international business experience in large and emerging companies.

Grant is a member of the Australian Competition Tribunal to the Federal Court. He was formerly Chairman of the Grains Research and Development Corporation, Deputy Chairman of Food Science Australia, Deputy Chairman of Export Finance and Insurance Corporation and Director of Austrade.

Other Current Directorships
Ricegrowers Limited.

Former Directorships in the last 3 years
Optiscan Imaging Limited (Chairman).
TP Health Limited (Chairman).

Special Responsibilities
Chairman of the Audit and Risk Committee.

Interest in Shares and Options
160,000 Ordinary shares in Biota Holdings Limited.

COMPANY SECRETARY

Damian T Lismore
FCA, GAICD, BA (Hons) Accountancy

Damian Lismore was appointed Chief Financial Officer and Company Secretary in August 2005. He has extensive experience throughout the healthcare industry, particularly in acquisitions and restructures, commercialisation of new technologies and dealing with the investment community.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2010, and the number of meetings attended by each director, when a director, are set out in the following table:

			Meetings of committees			
Director	**Board of directors**		**Audit and Risk**		**Remuneration and Nominations**	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Jim Fox – *Chairman*	9	9		*3	5	5
Peter Cook	9	9		*4		*5
Paul Bell	9	9		*1	5	5
Jeffery Errington (appointed 1/2/10)	4	4		*1		*3
Ian Gust	9	9		*2	5	5
Richard Hill	9	9	4	4		*5
Grant Latta	9	9	4	4		*5

* Director is not a member of the relevant committee, but attended the meeting as an observer.

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Constitution, Grant Latta retires by rotation at the 2010 Annual General Meeting and who, being eligible, offers himself for re-election.

Professor Jeffery Errington was appointed as a director on 1 February 2010 to fill a casual vacancy. In accordance with the Constitution, Professor Jeffery Errington retires as a director at the Annual General Meeting and, being eligible, offers himself for re-election.

CORPORATE GOVERNANCE STATEMENT

The Company has adopted corporate governance practices which are consistent with the ASX Corporate Governance Council's best practice principles and recommendation guidelines. The Board continues to review the framework and practices to ensure they meet the interests of all shareholders.

This statement will continue to be updated from time to time to reflect further changes and enhancements where necessary. A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

Principle 1: Lay solid foundations for management and oversight

The directors' overriding objective is to increase shareholder value within an appropriate framework that protects the rights and enhances the interests of shareholders and ensures the Company and its controlled entities are properly managed. The function of the board of directors is clearly defined and includes responsibility for:

- Review and approval of corporate strategies, the annual budget and financial plan;
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- Appointment of, and assessment of the performance of the Chief Executive Officer;
- Monitoring managerial performance;
- Establishing policies on risk oversight and management and ensuring that the significant risks facing the Company and its controlled entities have been identified; and appropriate and adequate control, monitoring and reporting mechanisms are in place; and
- Reporting to shareholders and regulatory authorities.

Day-to-day management of the group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the managing director and senior executives.

The directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the Company and its controlled entities and to best address the directors' accountability to shareholders and other stakeholders.

Principle 2: Structure the board to add value

The Board operates in accordance with the principles set out in its constitution as summarised below.

Composition of the Board

The Board comprises a majority of independent directors with appropriate skills. It has six non-executive directors, including an independent chairman and one executive director. The chairman is elected by the full Board.

Director's Independence

The Board considers a director to be independent if the director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

Factors that the Board will take into account in making its assessment of independence include consideration of whether the director:

- Is a substantial shareholder of the Company, or otherwise associated directly with a substantial shareholder of the Company;
- Is or has been employed in an executive capacity by the Company of another member of the Biota group within the last 3 years and did not become a director within 3 years of being so employed;
- Within the last 3 years, has been a principal of a material professional adviser or material consultant to the Company or another group member or an employee materially associated with the service provided;
- Is a partner in or controlling shareholder, or executive officer, or a material supplier or a material customer of the Company or another member of the Biota group;
- Has a material contractual relationship with the Company or another member of the Biota group other than as a director of the Company;
- Is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's independent exercise of their judgement;
- Has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- The director or any family member of the director has received compensation in excess of A$100,000 from the Group during the past year other than in direct connection with the director fulfilling their role as a director of the Company.

The Board at each board meeting, requires directors to declare potential conflicts of interest to ensure continuing independence, having regard to the criteria set out above and any other relevant relationship that non-executive director may have.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the last annual report are provided in the directors' report under the heading of "Information on directors as at 30 June 2010".

Details on the length of service, independence and board roles are included in the following table:

Director	Term to 30 June 2010	Independent	Non-executive	Board roles at 30 June 2010
Jim Fox – *Chairman*	1 year	✓	✓	Board Chairman Remuneration & Nominations Committee member
Paul Bell	3 years	✓	✓	Remuneration & Nominations Committee Chair
Peter Cook	4 years	-	-	Executive board member
Jeffery Errington	5 months	✓	✓	Scientific Advisory Board member
Ian Gust	9 years	✓	✓	Remuneration & Nominations Committee member
Richard Hill	1 year	✓	✓	Audit & Risk Committee member
Grant Latta	4 years	✓	✓	Audit & Risk Committee Chair

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by lengthy service on the board. The board will continue to monitor developments in this issue.

In the past, board members have been called on for special consultancy work. Current procedures stipulate that approval is obtained from the Board in respect of any consultancy services of a director. The Board ensure that any payment is appropriate and in keeping with the nature of the services provided and is not in conflict with ASX Listing Rules.

Director selection, appointment and succession

Directors are selected based upon the specific skills, knowledge and experience that they possess. Candidates would be expected to have well established scientific, financial or business credentials, and suitable experience in biotech or pharmaceutical operations would normally be well regarded.

Appointments are the responsibility of the full Board and are based on recommendations of the Remuneration and Nominations Committee. The Committee's role was expanded in the year to provide recommendations to the board about strategies on board diversity and monitor diversity at all levels of the Company.

A director appointed mid term by the Company must seek re-election at the next annual general meeting. A formal appointment letter setting out the key terms and conditions applicable to that appointment is provided to each new director. All current directors have formal appointment letters. Upon commencement, an induction program is conducted involving meetings with other directors and senior management to facilitate the new director's understanding of the affairs of the Company.

Each director normally serves for a period of three (3) years before re-election although the Constitution requires that one director must retire from office at each annual general meeting. A retiring director is eligible for re-election. Prior to the election of any director, candidate information with appropriate detail to support an informed decision is provided to shareholders.

Subject to satisfactory performance and re-election, a director may serve for two periods of three years, after which time, he or she, is subject to peer review prior to being considered for re-election.

Director performance evaluation

Regular communication between directors and the Chairman is encouraged and an annual review of the requirements and performance of all directors is conducted. The performance of the Board is formally reviewed annually by the full Board.

The performance of a director is continually monitored by the Chairman and peers and is reviewed with each director by the Chairman. The performance of the Chairman is reviewed by other directors and the results discussed with the Chairman by the elected lead director.

Board commitment

During the financial year, the Board met nine (9) times. The Group performance is monitored by monthly analysis of financial statements and critical evaluation of research progress against key benchmarks. In addition, on a regular basis, the Board reviews Group progress against the long term goals set out in the strategic plan.

In addition, directors read and analyse board papers and reports submitted by management and engage in regular informal discussions with management. The views of the Chairman and directors are canvassed regularly by the Chief Executive Officer and the executive management team on a range of strategic and operational issues. Senior executives routinely attend board and committee meetings to report on particular issues.

Where directors are associated with organisations with which the Group might have ongoing commercial relationships, the director involved will disclose where a potential conflict of interest may arise.

Access to information – Independent professional advice

Any director may with the prior written approval of the Chairman of the Board seek their own independent legal advice at the Company's expense, to assist them in the performance of their duties to the Company and the shareholders.

Each director has access to the Company Secretary. The Company Secretary has accountability to the Board, through the Chairman, on all governance matters.

Principle 3: Promote ethical and responsible decision making

Code of conduct

The Board has approved a Code of Conduct, applicable to all directors and employees of the group, providing for the conduct of business in accordance with the highest ethical standards and sound corporate governance. This requires that personnel act with honesty and integrity and in compliance with the letter and spirit of the law and Company policies.

Ethical standards

All directors, executives, scientists and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

Company securities

The Board have adopted a Share Trading Policy, which applies to all directors, employees and contractors of the Company. The policy covers matters of insider trading, share trading blackout periods and the maintenance of confidentiality.

During share trading blackout periods no director, employee, contractor or their immediate family members, may purchase or sell Company securities other than to convert options to ordinary shares as part of the Company's incentive schemes. Blackout periods are instated at least twenty trading days prior to the release of financial results.

The Board formally reviews the need for the declaration of any further blackout period at each Board meeting and may impose additional blackout periods at any other time, when either specific individuals or directors or employees and contractors generally, should be precluded from trading in the Company's securities. During the year, directors and key management personnel have been subject to trading blackout periods of 227 days.

The Audit and Risk Committee monitors the risks associated with margin lending practices on Company securities. Directors and executives declare significant lending associated with Company securities.

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Committee

The role of the Audit and Risk Committee is to provide the Board with additional assurance regarding the quality and reliability of financial and risk information prepared for use by the Board. The Committee will make recommendations to the Board. The Committee has a documented charter approved by the Board. A summary of the charter is available on the Company's website. All members of the Committee must be non-executive directors.

Mr G Latta (Chair) and Mr R Hill were standing members of the Committee for the full year. The Board Chairman attends most meetings as an ex officio member of the committee.

The external auditors, Chief Executive Officer, Chief Financial Officer and other executive staff are invited to the Audit and Risk Committee at the discretion of the Committee. The external auditor is invited to at least two meetings of the Committee without executives in attendance. The Chief Executive and Chief Financial Officer declared in writing to the Board that the Company's financial report for the year ended 30 June 2010 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. The declaration also confirms that the business operates on a sound management basis consistent with written policies and controls adopted by the Board. This statement is required annually.

The responsibilities of the Audit and Risk Committee include, the selection, and appointment of the external auditors; liaising with the external auditors and ensuring that the annual and half-year statutory audits/reviews are conducted in an effective manner; reviewing and ensuring management implement appropriate and prompt remedial action for any deficiencies identified; monitoring compliance with Australian and international taxation requirements, the Australian corporations laws and Securities Exchange Listing Rules; and reviewing and monitoring internal control systems, general risk management and compliance with the Company's Code of Conduct.

The Audit and Risk Committee reviews the performance of the external auditors on an annual basis and meets with them to discuss audit planning matters, statutory reporting and as required for any special reviews or investigations deemed necessary by the Board. The Audit and Risk Committee also assess whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence and provides advice to the Board whether the provision of such services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001.

The current external auditors, PricewaterhouseCoopers (PwC), attend the Annual General Meeting. PwC rotate their audit engagement partner, on listed companies, at least every five years.

The Board is of the view that the composition of the Audit and Risk Committee and the skills and experience of its members are sufficient to enable the Committee to discharge its responsibilities with the charter. All other non-executive directors are able to attend meetings at the discretion of the Committee Chair as observers.

Principle 5 & 6: Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

The Board of Directors aims to ensure that shareholders are informed of all major developments affecting the group's state of affairs. The Board has a Continuous disclosure policy to identify matters that a reasonable person would expect to have a material affect on the price of the Company's securities.

The administration of the policy is overseen and co-ordinated by the Company Secretary, who carries responsibility for ensuring compliance with the continuous disclosure requirements of the Australian Securities Exchange (ASX) Listing Rules. Proposed announcements are generally approved by the Managing Director and Company Secretary while others also require the approval of the Chairman or on occasion specific Board approval prior to release to the ASX and hence to shareholders, media, analysts, brokers and the public. The Company Secretary is responsible for all communication with the ASX.

Electronic communications

The Company seeks to provide opportunities for shareholders to participate through electronic means. All information disclosed to the ASX is posted on the Company's website www.biota.com.au as soon as it is disclosed to the ASX. All recent Company announcements, media briefings, press releases and financial reports are also available on the Company website.

Shareholders are encouraged to register their email details with the Company's share registrar for direct updates of Company matters and have available to them on-line access to facilitate their account maintenance, including viewing of balances, choosing method of delivery of annual report, price-volume charts for up to one year and download of forms to notify of change in particulars. In addition, registered shareholders are able to participate electronically in proxy voting for any matters brought before a meeting of shareholders.

A summary of the corporate governance documents available on the Company website include:

- Corporate Governance Statement;
- Audit and Risk Committee Charter;
- Remuneration and Nominations Committee Charter;
- Code of Conduct;
- Share Trading Policy;
- Continuous Disclosure Policy; and
- Health & Safety Policy.

Shareholder participation

The Board encourages participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to shareholders as single resolutions.

Principle 7: Recognise and manage risk

Risk assessment and management

The Board oversees the establishment, implementation and review of the Company's risk management systems, which have been established by management for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group. The responsibility for regular review of the risk management system has been delegated to the Audit and Risk Committee, who conduct these reviews at least twice a year. The risk strategy is to identify and to establish appropriate measures or responses to assist in the pursuit of the Company's, and its controlled entities', approved goals and objectives.

Responsibility for establishing and maintaining effective risk management strategies rests with senior management, accountable to the Chief Executive Officer and the Audit and Risk Committee of the Board. The annual business plan for the Company considers key risks and the risk management strategies, which is prepared by management and approved by the Board prior to the commencement of each financial year. A monthly review and assessment of performance against the plan is submitted to the Board. The executive management group are also responsible for the reinforcement of a risk management culture throughout the Company.

The Chief Executive Officer and Chief Financial Officer have declared, in writing to the Board that they have evaluated the effectiveness of the company's financial disclosure, controls and procedures and have concluded that they are operating efficiently and effectively. Operational and other compliance risk management has also been reviewed and found to be operating efficiently and effectively.

Where risks, such as natural disasters, cannot be adequately mitigated using internal controls, those risks are transferred to third parties through insurance coverage to the extent considered practical and appropriate.

Safety, health and environmental

The Board considers the successful management of safety, health and environmental issues as vital for business success. At each Board meeting, the directors receive a report on safety, health and environmental issues and performance in the Group. The Audit and Risk Committee receives more detailed presentations.

The Group is subject to environmental regulation and other licences in respect of its research facilities, including regular inspections and audits from State and Federal authorities. The Group was not in breach of any of these regulations throughout the year and no related issues have arisen, since the end of the financial year.

Principle 8: Remunerate fairly and responsibly

Remuneration and Nominations Committee

The role of the Remuneration and Nominations Committee is to review and make recommendations to the Board on:

- Remuneration packages and policies applicable to the Chief Executive Officer, Chief Financial Officer/Company Secretary, senior executives/scientists and the directors themselves;
- Executive succession planning, share schemes, incentive performance packages, superannuation entitlements and fringe benefits policies;
- The size and composition of the Board, including necessary director skills and competencies; and
- Diversity.

Remuneration policies are competitively set to attract and retain the most qualified and experienced directors and senior executives/scientists. The Remuneration and Nominations Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

From 1 July, 2010 the Remuneration and Nominations Committee has also assumed responsibility for diversity. Future Annual Reports will contain further details on the Company's approach.

The Remuneration and Nominations Committee meets at least twice a year as and when required. The Committee is chaired by a non-executive director and comprises three non-executive directors. The members of the Remuneration and Nominations Committee during the year were P Bell (Chair), Jim Fox, and I Gust. All other directors are able to attend meetings as observers, at the discretion of the Committee Chair although the Chief Executive Officer does not participate in discussions which consider his personal remuneration.

Remuneration report

The Remuneration report is set out on pages 16 to 23 and forms part of the Directors' report for the year ended 30 June 2010.

INSURANCE OF OFFICERS

During, or since the end of, the financial year the Company has not indemnified, or made a relevant agreement for indemnifying, against a liability of any present or former officer or auditor of the Company or any of its related bodies corporate as contemplated by subsections 309A(1) and (2) of the Corporations Act 2001.

During the financial year, the Company paid a premium to insure all directors, secretaries and officers of the Group against liability incurred in that capacity. Disclosure of the nature of the liability and the amount of premium is prohibited by the confidentiality clause of the insurance contract. The Company has not provided any insurance for an auditor of the Company or a related body corporate.

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.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the group are important.

The board of directors has determined that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated 2010 $	Consolidated 2009 $
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	120,000	121,000
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Audit of grant returns	30,000	30,000
Other assurances	10,000	-
Non PricewaterhouseCoopers audit firm (Richardsons)	12,500	-
Total remuneration for audit and assurance services	172,500	151,000

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, 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.

Peter Cook
Director

Jim Fox
Director

Melbourne
20 August 2010

REMUNERATION REPORT

The Remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Valuation of Shares

E Additional information

The information provided in this Remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The following phrases, terms or contractions are used throughout this section of the report. A summary is provided here to assist the reader;

Allocated or granted:	assigned to, but not yet vested.
Vested:	met performance criteria and is available to be exercised but not yet owned.
Exercised:	owned.
Total fixed remuneration (TFR):	the gross amount of salary, fringe benefits and superannuation.
Key performance indicators (KPIs):	specific targets or items and their measures that are linked to shareholder value creation.
Key management personnel:	non-executive directors, the managing director and the group's executive management committee.
Total shareholder return (TSR):	all tangible increases in shareholder value, effectively being the share price, adjusted for capital and dividend payments.
Biota employee option plan (BEOP):	the name applied to the rules under which equity incentive shares may be available to employees.
Equity incentive:	an incentive in which the payment is in shares.
At risk:	that portion of remuneration that is not guaranteed.
Vesting period:	the time interval between allocation date and vesting date.
Remuneration expense:	the amount recorded in the statutory accounts (income statement) as remuneration and which ascribes a value to shares that are allocated to, but not owned by, the employee.
Remuneration received:	the sum of total fixed remuneration, cash incentives and vested equity incentives, in the year.
Intersuisse biotechnology index:	a business index that ranks quarterly, the change in the share price of all ASX listed biotechnology companies.

A Principles used to determine the nature and amount of remuneration

The Remuneration and Nominations Committee review and make recommendations to the Board on remuneration packages and policies applicable to directors and employees of the Company. The broad remuneration policy is to ensure the remuneration package is consistent with current industry practice, properly reflects the person's duties and responsibilities and aligns reward with the delivery of performance that is likely to create value for shareholders.

The Committee has appointed Egan & Associates and Godfrey Remuneration Group to advise on the quantum and structure of the CEO and CFO packages and on directors' fees.

Information is obtained from independent surveys to ensure that remuneration is set at market rates having regard to experience and performance and the need to have effective retention strategies for key executives and scientific staff. Survey information is obtained from the Mercer Pharmaceutical and Healthcare Industry Remuneration Review, Hewitt CSI Australia Biotech Industries Salaries and Benefits Survey, Monash University and CSIRO in Australia or equivalent bodies in the UK. Formal performance appraisals are conducted at least annually for all employees. The Board ensures that executive reward is in the interests of shareholders through:

- Being competitive and reasonable;
- Linking compensation to performance; and
- Transparency.

Remuneration packages may include a mix of fixed remuneration and performance-linked remuneration, and include both cash and equity components.

Fixed remuneration

Total fixed remuneration (TFR) consists of base salary, fringe benefits including tax and contributions to superannuation.

Remuneration levels are set annually by the Remuneration and Nominations Committee from the information obtained from independent salary and benefits surveys to establish the market rate for similar or equivalent roles. Biota sets its TFR at the median of the surveys. An individual's TFR is established relative to the median through their consistent performance.

These principles apply to all positions, including directors, executives, scientists and support staff.

Performance-linked remuneration

Please note; Non-executive directors do not participate in any performance-linked form of remuneration.

Performance-linked remuneration is "at risk" and may not be paid. It includes both cash and equity components and is designed to reward staff for meeting or exceeding financial, project and personal objectives.

The directors believe that based on the creative and otherwise distinctive nature of the work undertaken by Biota's team, performance-linked remuneration should apply to all members of staff.

Cash incentives

Staff may receive bonuses based on the achievement of pre-defined goals which relate to the performance of the Company. Such goals could include the value of licences secured, major project milestones delivered including the commencement and/or completion of clinical trials, granting of patents, research milestones and financial performance including capital raisings, partnering revenue, profit and cash. These measures are chosen as they create value for shareholders. They also directly align an individual's remuneration to the Company's performance.

The Remuneration and Nominations Committee formally recommend to the Board each year, the pre-defined corporate goals, as measured by the Key Performance Indicators (KPIs). The Chief Executive Officer, Chief Financial Officer and other senior executives' cash incentives are largely based on these KPIs, while other executives and scientists' incentives are based on a suitable blend of corporate KPIs, specific project targets and personal KPIs. All employees have a significant portion of any cash incentive linked to the corporate KPIs. The F2010 cash incentive payment will be made in August 2010, once approved by the Board.

The cash incentive is capped as a percentage of TFR for each individual. The CEO's limit is 80%, the limit for other key management personnel is 40%, with progressively lower amounts for other members of staff.

Biota employee option plan

The Company encourages employees to participate in its growth through the Biota employee option plan (BEOP). Under the plan, shares are normally allocated based on achievement of pre-set performance targets, but may also vest on death, permanent disability, takeover or at the Board's discretion. An individual receives ordinary shares in the Company at no cost under either the Equity Retention Incentive or the TSR Equity Incentive programs. An employee cannot participate in both schemes simultaneously. The CEO did not receive a share allocation under the BEOP in F2010 as he participated in the Deferred Bonus Plan. At 30 June 2010, total new share issues subject to the BEOP represented 2.02% of the total shares on issue. From 1 July 2010, Biota Europe employees will be eligible to participate in the Biota employee option plan.

(a) Equity retention incentive

Managers, scientists and support staff may be offered Biota shares on the achievement of specific performance targets and after achieving continuity of employment of two years. For consistency, the performance targets are the KPIs used for the determination of the cash incentive, however, the retention incentive requires a defined target to be exceeded before any equity retention incentive can be awarded.

At 100%, the incentive is twice the value of the cash incentive, with the intermediate steps between 50% and 100% increasing logarithmically, from zero times the cash incentive at 50% to twice the cash incentive at 100%. Based on this calculation un-issued ordinary shares at an issue price equal to the Company's share price on the allocation date, normally on 30 June, are allocated to the individual.

50% of the allocated shares vest after the first and second anniversary of the date of allocation. All entitlements cease after five years.

The equity retention incentive is reported in the income statement over the vesting period at the share price on the allocation date. Due to the vesting criteria, accounting standards require that three quarters of the value of the retention incentive is recognised in the first year and one quarter is recognised in the second year.

The equity retention incentive is capped and cannot exceed twice the cash incentive for any member of staff.

(b) TSR equity incentive

Senior executives, generally the key management personnel, are allocated rights to Biota shares which vest when pre-set Total Shareholder Return (TSR) conditions are achieved. The key features of the plan are:

- TSR targets are set by the Board at the commencement of each 3 year period and consist of two components:
  1. An absolute shareholder return based on share price growth and adjusted for capital or dividend payments. The absolute TSR targets set in F2010 are provided in Table 1. They are based on the 15 day volume weighted average share price to 30 June 2009 of $1.27; and
  2. Share price growth relative to a peer group. The relative TSR performance uses companies in the Intersuisse Biotech Index, an index that measures listed Australian biotech companies' share price growth each quarter, to assign a score to Biota's ranking. At the end of each 3 year period, the cumulative score is used to calculate relative performance.

Table 1 is a summary of the shares allocated in the year and the TSR targets for each performance measure at 30 June 2012. These shares are "at risk" and do not become the property of the individual unless the performance targets are met.

Table 1

Absolute share price measure				Relative share price measurement		Total rights allocated
	Annual growth %	Vesting %	Share price target 2012	Vesting %	Relative index score 2012	
Threshold	8	25	$1.60	25	≥50%	
Target	10	50	$1.69	50	≥58%	
Stretch	16	100	$1.98	100	≥75%	
Total rights allocated on absolute share price measure			451,956	Total rights allocated under relative performance measure	112,990	564,946

The Board has determined that the final TSR measure will comprise 80% of the absolute component and 20% of the relative component, although this may be re-assessed at the commencement of each three year cycle. Under each TSR measure the incentive is only available when performance exceeds the Threshold and the maximum available is achieved at Stretch and proportionally between.

The value of the TSR equity incentive and number of shares allocated are capped based on a percentage of an executive's TFR. In the case of the CEO, it is capped at 100%, and for other senior executives, at 60%.

The number of shares are calculated at the 15 day volume weighted average price at the beginning of the three year period and sufficient number are allocated assuming stretch performance is achieved. The shares may start to vest after three years on the achievement of performance targets. If performance targets are not met, retesting may occur for a further two years but with targets increasing at the pre set annual growth rate.

Where TSR measures are not achieved at the three year date or within the re-test period, all allocated shares lapse at the end of five years.

Deferred bonus plan

The CEO has been allocated rights to receive a cash bonus which vest when pre-set Total Shareholder Return (TSR) conditions are achieved under a deferred bonus plan. The deferred bonus plan uses the same targets as described above in the TSR equity incentive programme. Each right confers upon the CEO a right to a cash payment equal to the market price of Biota shares at the time that the right vests.

The absolute and relative share price targets applicable to the rights are as set out in Table 1 above. Table 1 is a summary of the performance measures applicable at 30 June 2012 that will be used to determine whether any of those rights vest and, if so, the percentage that vest. They are based on the 15 day volume weighted average share price to 30 June 2009 of $1.27.

The Board has determined that 80% of the rights to receive a bonus will be measured against the absolute TSR component and 20% of the rights to receive a bonus will be measured against the relative TSR component. Under each TSR measure the incentive is only available when performance exceeds the Threshold and the maximum is available at Stretch and proportionally between. In F2010, the CEO has been allocated 377,256 rights to receive a cash bonus, with 301,805 based on the absolute share price measures and 75,451 based on the relative share price measures, referred to in Table 1. In line with current best practice on long term incentives, the rights continue to exist after the retirement of the CEO and remain subject to achieving the TSR performance hurdles.

The number of rights allocated to the CEO is determined by dividing the CEO's TFR in the relevant year by the 15 day volume weighted average share price at the beginning of the three year period. Unless Stretch performance is achieved, not all of those rights will vest. The rights may start to vest after three years on the achievement of performance targets. If performance targets are not met, retesting may occur for a further two years but with targets increasing at the pre set annual growth rate.

Where TSR measures are not achieved at the three year date or within the re-test period, no further entitlement is payable after five years.

Non-executive director remuneration

Non-executive director's remuneration is restricted to fees. There are no performance or retirement based components to non-executive director's remuneration.

Non-executive remuneration is set annually by the Remuneration and Nominations Committee through a process that uses independent surveys to establish the market rate for non-executive directors' remuneration in equivalent sized companies operating in an equivalent or similar field. Biota sets its directors fees at the median of the surveys. The Committee recognises the need to attract and retain appropriately experienced and qualified Board members and the increasing commitment of time required by each Board member in the current regulatory environment.

The Company does not seek shareholder approval for individual directors' fees but does obtain approval for the directors' fee pool limit, periodically. Shareholders approved the current pool limit of $0.6 million, in October 2006.

Each director receives a base fee and may receive an additional committee or chairman fee through membership of either the Audit & Risk Committee or the Remuneration & Nominations Committee.

Disclosure of all payments to non-executive directors is contained in Section B.

B Details of remuneration

Amounts of remuneration

Details of the amount paid by component to each director of Biota Holdings Limited and each of the key management personnel of the Company and the consolidated entity receiving the highest emoluments for the year ended 30 June 2010, are set out in the table below.

The key management personnel of Biota Holdings Limited include the directors and two key management personnel. These personnel are the only executives of Biota Holdings Limited. These executives are:

- Peter Cook – *Chief Executive Officer and Managing Director*
- Damian Lismore – *Chief Financial Officer and Company Secretary*

The key management personnel of the Biota Group include all of the personnel listed above for Biota Holdings Limited and the members of the Group's executive management committee. The additional executives are:

- Simon Tucker – *Vice President, Research*
- Jane Ryan – *Vice President, Product Development*
- Leigh Farrell – *Vice President, Business Development*
- John Lambert – *Principal Director, Product Development Operations*
- Steve Ruston – *Managing Director, Biota Europe*

Key management personnel of Biota Holdings Limited and the Group

Table 2 below details the remuneration expensed in the income statement. Total base salary is the total fixed remuneration. The Cash Bonus is the cash incentive. The value of shares expensed in the income statement is in accordance with Australian Accounting Standards. These standards require a dollar value to be assigned as future benefits even though the performance targets have not yet been met. At the time of allocation they are not, and may never be the property of the executive. The reported remuneration does not therefore directly correlate with the benefits ultimately received by the executives.

Table 2

	Financial Year	Base Salary				Performance Linked Remuneration		Total Remun-eration per accounts
		Salary and fees $	Superan-nuation $	Total Base Salary $	Long Service Leave $	Cash Bonus $	Value of shares expensed in accounts $	$
Non-executive directors								
Jim Fox – *Chair*	2010	121,193	8,807	130,000	-	n/a	n/a	130,000
	2009	39,661	3,570	43,231	-	n/a	n/a	43,231
Paul Bell	2010	73,000	-	73,000	-	n/a	n/a	73,000
	2009	67,888	-	67,888	-	n/a	n/a	67,888
Jeffery Errington	2010	29,167	-	29,167	-	n/a	n/a	29,167
(appointed 1/2/10)	2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ian Gust	2010	67,000	-	67,000	-	n/a	n/a	67,000
	2009	60,000	-	60,000	-	n/a	n/a	60,000
Richard Hill	2010	67,000	-	67,000	-	n/a	n/a	67,000
	2009	34,622	-	34,622	-	n/a	n/a	34,622
Grant Latta	2010	73,000	-	73,000	-	n/a	n/a	73,000
	2009	66,000	-	66,000	-	n/a	n/a	66,000
John Grant	2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(resigned 27/2/09)	2009	80,000	-	80,000	-	n/a	n/a	80,000
Barbara Gibson	2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a
(resigned 17/12/08)	2009	28,000	-	28,000	-	n/a	n/a	28,000
Sub-total	2010	430,360	8,807	439,167	-	n/a	n/a	439,167
	2009	376,171	3,570	379,741	-	n/a	n/a	379,741
Executive director								
Peter Cook	2010	439,555	39,560	479,115	-	112,113	63,343	654,571
	2009	449,445	29,670	479,115	-	212,727	99,261	791,103
Other key management personnel								
Damian Lismore	2010	251,193	22,607	273,800	-	46,326	28,688	348,814
	2009	251,193	22,607	273,800	-	83,016	56,904	413,720
Sub-total of directors & key management parent entity								
	2010	1,121,108	70,974	1,192,082	-	158,439	92,031	1,442,552
	2009	1,076,809	55,847	1,132,656	-	295,743	156,165	1,584,564
Other key management personnel of the Group								
Simon Tucker	2010	217,431	19,569	237,000	5,215	44,840	24,830	311,885
	2009	217,431	19,569	237,000	8,377	75,650	51,767	372,794
Jane Ryan	2010	217,431	19,569	237,000	5,232	35,360	24,830	302,422
	2009	217,431	19,569	237,000	8,332	71,858	47,845	365,035
Leigh Farrell	2010	217,431	19,569	237,000	-	25,880	24,830	287,710
	2009	217,431	19,569	237,000	-	68,066	49,877	354,943
John Lambert	2010	193,578	17,422	211,000	2,775	33,169	22,094	269,038
	2009	193,578	17,422	211,000	9,382	61,021	35,956	317,359
Steve Ruston	2010	177,830	13,337	191,167	-	41,839	-	233,006
(from 12/11/09)	2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	2010	**2,144,809**	**160,440**	**2,305,249**	**13,222**	**339,527**	**188,615**	**2,846,613**
	2009	**1,922,680**	**131,976**	**2,054,656**	**26,091**	**572,338**	**341,610**	**2,994,695**

The *Corporations Act 2001* classifies salary and fees plus cash bonuses as "short term employee benefits", superannuation as "post employment benefits", long service leave as "other long term employee benefits" and value of shares expensed in the accounts as "share based payments".

In addition to the above fees, Professor Jeffery Errington received $7,500 as a member of the Scientific Advisory Board.

Percentage of total remuneration paid compared to potential remuneration

The relative proportions of 2010 remuneration that are linked to performance and those that are fixed are included in Table 3. The table compares the actual percentage mix by Fixed Remuneration, At Risk - Cash and Equity - with the potential percentage mix if stretch performance is achieved. Where the Actual Fixed Remuneration percentage is higher than the Potential Fixed Remuneration percentage, the full value of At Risk incentives were not achieved.

Table 3

	Fixed remuneration		At risk – Cash		At risk – Equity	
	Potential %	Actual %	Potential %	Actual %	Potential %	Actual %
Executive director						
Peter Cook	42	73	25	17	33	10
Other key management personnel of Group						
Damian Lismore	50	79	20	13	30	8
Simon Tucker	50	78	20	14	30	8
Jane Ryan	50	80	20	12	30	8
Leigh Farrell	50	82	20	9	30	9
John Lambert	50	80	20	12	30	8
Steve Ruston (appointed 12/11/09)	68	82	14	18	19	n/a

C *Service agreements*

Remuneration and other terms of employment for key management personnel are formalised in Employment Agreements. The major terms of these agreements are as follows:

- Each executive receives a remuneration package which is reviewed annually. The package includes a base salary and a performance linked component; including a cash incentive and an equity incentive. For key management personnel, details are provided in Part B;
- Shares offered under the equity incentives for key management personnel are generally new shares, subject to standard ASX restrictions as a percentage of total number of shares on offer. In the case of executive directors and unless shareholder approval is obtained, the service agreements provide that the shares may be purchased on market and held to meet any potential vesting that may occur in the future;
- Protection of the Company's intellectual, commercial and confidential information;
- Non competition during employment and in some cases for a suitable post employment period; and
- Termination by the Company with six months notice or payment of six months remuneration. In the case of the CEO and Managing Director the payment may be extended to twelve months in certain circumstances or if the termination is a consequence of an acquisition or merger. Executives can terminate their agreement with three months notice, while the CEO and Managing Director is required to provide six months notice to the Company.

D *Valuation of shares*

Summary of share valuations from past allocations that affect the remuneration of current employees

Tables 4 & 5 identify the value ascribed to past allocations of shares that have vested, or may vest in the current or future reporting periods and is the value at which they have been incorporated in the income statement. The valuation method is identified at the bottom of each table.

Table 4: Equity retention incentive

Issue date	Expiry date	Exercise price	Value per share at allocation date	Vesting Date
8 August 2007	30 June 2012	Nil	$1.86	50% after 30 June 2008 50% after 30 June 2009
22 August 2008	30 June 2013	Nil	$0.77	50% after 30 June 2009 50% after 30 June 2010
29 June 2010	30 June 2014	Nil	$1.195	50% after 30 June 2010 50% after 30 June 2011

The value used for each Equity retention incentive share was the closing share price at the date of allocation.

Table 5: TSR equity incentive

Issue date	Expiry date	Exercise price	Value per share at allocation date		Vesting Date
			Absolute share price	Relative share price	
31 October 2007	30 June 2012	Nil	$0.97	$0.71	After 30 June 2008
			$0.91	$0.67	After 30 June 2009
			$0.85	$0.64	After 30 June 2010
20 December 2007	30 June 2012	Nil	$0.66	$0.51	After 30 June 2008
			$0.64	$0.49	After 30 June 2009
			$0.60	$0.48	After 30 June 2010
22 August 2008	30 June 2013	Nil	$0.45	$0.44	After 30 June 2011
29 June 2010	30 June 2014	Nil	$0.92	$0.95	After 30 June 2012

The value used for each TSR equity incentive share was that determined by Ernst & Young ABC Pty Limited, who employed a Monte-Carlo valuation method. This method used such factors as initial share price, share price volatility, time before vesting, risk-free interest rates and dividend yield to determine the value of the share at the date of allocation.

Shares vested and included in remuneration

The number and price of shares which vested during the year (and for comparison last year) to each director of Biota Holdings Limited and other key management personnel of the Group are set out in Table 6 below.

Table 6

Name	Date of exercise	Value per share	Number of ordinary shares issued	
			2010	2009
Damian Lismore	1 Feb 2010	$1.40	6,686	-
	13 July 2009	$1.86	32,543	-
	16 Jul 2008	$1.21 & $1.86	-	68,369
Simon Tucker	11 Jul 2008	$1.21 & $1.86	-	62,359
Leigh Farrell	13 July 2009	$1.86	28,841	-
	11 Jul 2008	$1.21 & $1.86	-	35,759
John Lambert	1 Feb 2010	$1.86 & $1.40	21,759	
	11 Jul 2008	$1.21 & $1.86	-	29,928

No amounts are unpaid on any share issued on the exercise of options.

Shares allocated and vested in the year

The number of ordinary shares allocated in the company provided as remuneration to each director and key management personnel of the Group are set out in Table 7 below. Further information is set out in note 23 of the financial statements.

Table 7

	Number of shares allocated during the year		Number of shares vested during the year	
	2010	2009	2010	2009
Executive director				
Peter Cook	-	456,300	266,437	76,229
Other key management personnel of Group				
Damian Lismore	129,354	195,572	114,188	39,229
Simon Tucker	111,969	169,286	98,816	36,660
Jane Ryan	111,969	169,286	98,816	32,443
Leigh Farrell	111,969	169,286	98,816	34,628
John Lambert	99,685	150,715	87,837	21,759

Mr Cook was awarded 377,256 rights (2009:Nil) under a Deferred Bonus Plan in F2010. Details are included in Section A.

E Additional Information

Remuneration and company performance

The relationship between remuneration and company performance is provided through the Company's cash and equity incentive schemes.

Cash incentive

Staff may receive a cash bonus based on the achievement of pre defined goals, specifically linked to the performance of the Company. They are formally established at the commencement of each year by the Board as the Corporate Key Performance Indicators (KPI's). KPIs are selected which are most likely to result in an increase in shareholder value. The achievement of the KPIs, which are usually defined in key financial or program related milestones, should be regarded as realistic measures of company performance. The KPIs are established from the commercial and strategic objectives of the Company and consequently are not disclosed in advance. The cash incentive is capped.

Table 9 summaries the cash incentive by year and shows a direct correlation to the Corporate KPI score approved by the Board. A selection of outcomes within the Corporate KPI's has also been set out.

Table 9

Cash incentive				
Year	**Paid $**	**Maximum cash incentive available in year $**	**% of cash incentive paid**	**% of cash incentive forfeited**
2007	381,904	416,000	92%	8%
2008	390,032	522,500	70%	30%
2009	572,338	765,789	75%	25%
2010	297,688	765,789	39%	61%

Corporate KPI's	Program and scientific milestones	Commercial milestones
93%	- RSV Phase I commencement - HRV Phase I completion	- VCP/CSIRO sub-royalty buyout - HCV program licence to BI with $3m payment - NIH grant award of US$8.5m - RSV Phase I milestone of $5m - Collaboration income of $13.7m
70%	- RSV and LANI clinical development - Expansion in scientific resources and facilities	- RSV licence to AZ with payment of $3.9m - Collaboration income of $15.1m
74%	- LANI UK studies - HRV Phase IIa - RSV Phase I	- In licence of Harvard CMV and other program - Collaboration income of $12.5m
39%	- LANI IND - HRV IND - RSV & HCV-NN program progress	- Program acquisitions from Prolysis and Maxthera

The 2008 incentive payment included an amount of $227,000 to key management personnel (excluding the CEO) to transition from a 2 year equity scheme to a 3 year Total Shareholder Return (TSR) incentive scheme. For comparison purposes this has been excluded from the table. In 2010, a Corporate KPI score of 39% has resulted in a 48% reduction in the cash incentive payable from the previous year and a 61% forfeiture of the potential cash incentive.

Long Term Incentive

The Board considers that a significant portion of a senior executive's remuneration should be specifically linked to Total Shareholder Return (TSR).

Both absolute and relative shareholder return measures are set annually in advance for the next 3 years and advised to the market (see Section A part (b) Table 1). Assuming the targets are achieved the shares vest at the end of 3 years. The current equity incentive is 80% linked to absolute share price performance and 20% linked to relative share price performance. The relative share price movement is measured against all companies in the Intersuisse Biotechnology Index.

Both the absolute and relative equity incentives use the market determined share price as the measure of total shareholder return and, by definition and convention, is the measure of company performance. The long term incentive allocation is capped and executives may earn up to 100% of their fixed remuneration in an environment of high shareholder returns.

Table 10

Shares vesting by year			Performance measures		
Year	No of shares vesting		Growth in share price over allocation price %	Absolute share price at VWAP	Relative quartile performance to index
				Weighting :80%	Weighting: 20%
2007*	157,032		54	$1.86	
2008*	353,190		(59)	$0.77	Q3
2009	240,948		(27)	$1.27	Q2
2010	764,910		50	$2.61	Q3

* Shares vesting in 2007 and 2008 were a consequence of the previous 2 year equity retention incentive. Key management personnel were last allocated new shares for F2006.

Table 10 shows by financial year:

- The number of shares vesting;
- The company TSR measures highlighting the change in share price from the point of allocation to the point of vesting as a percentage; and
- The actual 15 day VWAP price for the absolute measure and quartile performance against companies in the Intersuisse Biotechnology Index.

In F2010, there was 50% growth in share price from the point of allocation and 764,910 shares vested.

Remuneration: cash bonuses and options

Table 11 provides the percentage of the available cash bonus or option allocation that was paid or vested in the financial year and the percentage that was forfeited because the person did not meet the service and performance criteria. No part of the bonuses are payable in future years and no options have been forfeited.

Table 11

	Cash bonus		Options				
Name	Paid %	Forfeited %	Year granted	Vested %	Financial years in which options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
Peter Cook	39	61	2009	-	-	-	-
			2008	-	2011	Nil	204,422
			2007	54	2008-2010	Nil	134,863
Damian Lismore	42	58	2009	-	2012	Nil	119,782
			2008	-	2011	Nil	87,616
			2007	54	2008-2010	Nil	80,995
Simon Tucker	47	53	2009	-	2012	Nil	103,683
			2008	-	2011	Nil	75,840
			2007	54	2008-2010	Nil	70,092
Jane Ryan	37	63	2009	-	2012	Nil	103,683
			2008	-	2011	Nil	75,840
			2007	54	2008-2010	Nil	70,092
Leigh Farrell	27	73	2009	-	2012	Nil	103,683
			2008	-	2011	Nil	75,840
			2007	54	2008-2010	Nil	70,092
John Lambert	39	61	2009	-	2012	Nil	92,308
			2008	-	2011	Nil	67,520
			2007	54	2008-2010	Nil	62,303
Steve Ruston (appointed 12/11/09)	75	25	2009	n/a	n/a	n/a	n/a

Table 12 sets out options as a proportion of Total Remuneration reflected in the income statement, the value of options ascribed at allocation date by Ernst & Young ABC Pty Ltd and the value of shares that have vested and exercised or lapsed.

Table 12

	A	B	C	D
Name	Percentage of Total Remuneration expensed consisting of shares %	Fair value ascribed to shares at allocation date $	Value of shares vested and exercised at the exercise date $	Value of shares lapsing $
Peter Cook	10	-	-	-
Damian Lismore	8	42,017	58,119	-
Simon Tucker	8	36,370	-	-
Jane Ryan	8	36,370	-	-
Leigh Farrell	9	36,370	39,656	-
John Lambert	8	32,380	43,518	-

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Auditor's Independence Declaration

As lead auditor for the audit of Biota Holdings Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Biota Holdings Limited and the entities it controlled during the period.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
20 August 2010

FINANCIAL REPORT

	Notes	Consolidated 2010 $'000	Consolidated 2009 $'000
Revenues from continuing operations	5	67,590	60,558
Other income	6	3,875	22,776
Expenses:			
Research and development	7	(21,749)	(13,348)
- Amortisation of antibacterial programs acquired	13	(8,777)	-
Product development		(11,245)	(11,300)
Business development		(995)	(982)
Sub-royalty	7	(4,096)	(4,222)
Corporate - head office		(4,281)	(4,301)
- litigation	7	-	(7,244)
Finance cost	7	(38)	(120)
Profit before tax		20,284	41,817
Income tax expense	8	(4,049)	(3,636)
Profit after tax		16,235	38,181
Profit attributable to members of Biota Holdings Limited		16,235	38,181
Other comprehensive income			
Exchange differences on translation of foreign operations		(421)	-
Other comprehensive expense, net of tax		(421)	-
Total comprehensive income		15,814	38,181
Profit is attributable to:			
Owners of Biota Holdings Limited		15,814	38,181
Total comprehensive income for the year is attributable to:			
Owners of Biota Holdings Limited		15,814	38,181
Earnings per share from continuing operations attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share	32	9.2	21.7
Diluted earnings per share	32	9.1	21.6
Earnings per share attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share	32	9.2	21.7
Diluted earnings per share	32	9.1	21.6

The above income statements should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2010 $'000	Consolidated 2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	104,867	86,704
Trade and other receivables	10	2,072	8,067
Total current assets		106,939	94,771
Non-current assets			
Property, plant and equipment	11	6,761	6,924
Deferred tax assets	12	1,157	1,532
Intangible assets	13	7,310	8,402
Total non-current assets		15,228	16,858
Total assets		122,167	111,629
LIABILITIES			
Current liabilities			
Trade and other payables	14	9,427	5,631
Deferred revenue	15	2,610	5,262
Current tax liability		3,674	-
Provisions	16	1,422	1,561
Total current liabilities		17,133	12,454
Non-current liabilities			
Provisions	18	138	2,143
Total non-current liabilities		138	2,143
Total liabilities		17,271	14,597
Net assets		104,896	97,032
EQUITY			
Contributed equity	19	146,375	154,576
Reserves	20a	1,366	1,536
Accumulated losses	20b	(42,845)	(59,080)
Total equity		104,896	97,032

The above balance sheets should be read in conjunction with the accompanying notes.

	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2008	**159,124**	**1,437**	**(97,261)**	**63,300**
Profit after tax	-	-	38,181	38,181
Total comprehensive income for the year	**-**	**-**	**38,181**	**38,181**
Transactions with owners in their capacity as owners:				
Employee share options	-	695	-	695
Treasury shares	(200)			
Cancellation of shares	(4,944)		-	(4,944)
Transfer from share based payment reserve for options exercised	596	(596)	-	-
	(4,548)	99	-	(4,249)
Balance at 30 June 2009	**154,576**	**1,536**	**(59,080)**	**97,032**
Profit after tax	-	-	16,235	16,235
Exchange differences on translation of foreign operations	-	(421)	-	(421)
Total comprehensive income for the year	**-**	**(421)**	**16,235**	**15,814**
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 19)	11,259	-	-	11,259
Employee share options	-	797	-	797
Transfer from share based payment reserve for options exercised	546	(546)	-	-
Capital return	(20,006)		-	(20,006)
	(8,201)	251	-	(7,950)
Balance at 30 June 2010	**146,375**	**1,366**	**(42,845)**	**104,896**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2010 $'000	2009 $'000
		Inflows/(outflows)	
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		79,934	55,800
Payments to suppliers and employees (inclusive of GST)		(39,524)	(50,340)
Other revenue (upfront or milestone payments)		-	4,209
Other revenue (litigation settlement)		-	20,000
Interest received		2,210	2,810
Net cash inflow from operating activities	31	42,620	32,479
Cash flows from investing activities			
Payments for plant, equipment and intangibles	11, 13	(4,816)	(798)
Proceeds from sale of plant & equipment		-	3
Net cash (outflow) from investing activities		(4,816)	(795)
Cash flows from financing activities			
Proceeds from issue of shares	19b	459	-
Capital return to shareholders	19b	(20,006)	-
Share buy-back transaction costs	19e	-	(12)
Payments for shares bought back and cancelled	19e	-	(4,932)
Payments for Treasury shares	19f	-	(200)
Net cash (outflow) from financing activities		(19,547)	(5,144)
Net increase in cash and cash equivalents		18,257	26,540
Cash and cash equivalents at the start of the year		86,704	60,164
Effects of exchange rate changes on cash and cash equivalents		(94)	-
Cash and cash equivalents at the end of the year	9	104,867	86,704

The above cash flow statements should be read in conjunction with the accompanying notes.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Biota Holdings Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated and parent entity financial statements and notes of Biota Holdings Limited comply with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Biota Holdings Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the full year then ended. Biota Holdings Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains or transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost, less any impairment, in the individual financial statements of Biota Holdings Limited.

(ii) Employee Share Trust

The Group has a trust to administer a part of the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held by the Biota Holdings Employee Share Trust are disclosed as treasury shares and deducted from contributed capital.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer who is the chief operating decision maker.

Change in accounting policy

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a "management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. Comparatives for 2009 have been restated.

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Biota Holdings Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates; in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Royalties and profit share

Royalty and profit share income is recognised upon sales of the underlying product by external parties.

(ii) Research revenue

Research revenue is recognised on the following basis:

(a) On achieving "milestones" relating to a research project; and
(b) Over the term of the project or when related to a re-imbursement of expenditure or payment for services.

(iii) Partnering revenue

Partnering income is recognised in accordance with the underlying agreement. Upfront and milestone payments are brought to account as revenue unless there is a correlation to ongoing research and both components are viewed as one agreement, in which case the partnering revenue is amortised over the anticipated period of the associated research program. Unamortised partnering revenue is recognised on the balance sheet as Deferred Revenue.

(iv) Grants

Grants received from non-governmental organisations are recognised as income in the same period as the related services are performed.

(v) Interest

Interest income is recognised on a time proportion basis using the effective interest rate method.

(f) Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Biota Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Biota Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Biota Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(h) Leases

Leases of property, plant and equipment, where the Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Change in accounting policy

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from the other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's Management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets – reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available–for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular purchase and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- Hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement with finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export income is recognised in the income statement within 'income'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relation to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expenses.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

(o) Property, plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

- Leasehold improvements 8 - 10 years
- Plant and equipment 3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When re-valued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(p) Intangible assets

(i) Royalty prepayments

Royalty prepayments represent expenditure to CSIRO and Victorian College of Pharmacy where the parties agreed to exchange variable royalty payments in relation to intellectual property, for a fixed upfront payment and a fixed contingent success payment. They have a finite useful life, usually being the period to the patent or contract expiry and are carried at the present value of costs at acquisition date less accumulated amortisation. Amortisation is based on the anticipated sales of the related product over the contract or product life.

(ii) Computer software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits are capitalised to computer software. Amortisation is calculated on a straight-line basis over periods ranging from 1 to 3 years.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred. Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development and it is probable that the project will generate future economic benefit.

The expenditure capitalised comprises all directly attributable costs that can be measured reliably, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Capitalised development costs are recorded as intangible assets and amortised when the asset is ready for use, on a straight-line basis over its useful life.

(iv) Intellectual property

Intellectual property represents expenditure in acquiring new research programs. They have a finite useful life, usually being the period to the patent expiry or the next assessment of go/no-go decision point on the acquired programs.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Provisions

Provisions including those relating to contingent consideration for the acquisition of assets are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Employee benefits

(i) Wages and salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating personal leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Retirement benefit obligations

All employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. All employees are party to a defined contribution scheme and receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. These contributions are expensed as incurred.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Biota Employee Option Plan. Information relating to these schemes is set out in the Remuneration report.

The fair value of options allocated under the Biota Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at allocation date and recognised over the period during which the employees become unconditionally entitled to the options. Where appropriate, the fair value at allocation date is independently determined using the Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at allocation date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options allocated excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

The market value of shares issued to employees for no separate cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(v) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own entity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gains or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(v) Parent entity financial information

The financial information for the parent entity, Biota Holdings Limited, disclosed in note 29 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost in the financial statements of Biota Holdings Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Biota Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Biota Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Biota Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(w) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The result attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares; and
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all potential ordinary shares.

(x) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

(y) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flow.

(z) Rounding of amounts

The company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective from 1 January 2010)

AASB 2009-8 will not have an impact on the groups financial statements.

(ii) AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective from 1 February 2010)

AASB 2009-10 will not have an impact on the groups financial statements.

(iii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The initial assessment is that the standard will not change the approach to reporting on financial performance.

(iv) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. This standard is unlikely to require a change in the approach to reporting on financial performance.

(v) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). As Biota, has no debt, this standard is unlikely to require a change in the approach to reporting on financial performance.

(vi) AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not have a defined benefit scheme. The amendment is therefore not expected to have any impact on the group's or the parent entity's financial statements.

(vii) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2010)

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards Standards. The Group will apply the revised standards from 1 July 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(viii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Biota Holdings Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

(ix) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4. Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2010/1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The group will apply the amendments from 1 July 2011. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate instruments to minimise certain risk exposures. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk.

Risk management is carried out by the Treasury Management Committee under policies approved by the Audit and Risk Committee and as delegated by the Board of Directors. The Treasury Management Committee identifies, evaluates and hedges identifiable financial risks. The Audit and Risk Committee approves written principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

The Group and the parent entity hold the following financial assets and liabilities:

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Financial assets		
Cash and cash equivalents	104,867	86,704
Trade and other receivables	2,072	8,067
	106,939	94,771
Financial liabilities		
Trade and other payables	9,427	5,631
	9,427	5,631

Major risks and the mitigation processes are outlined below:

(a) Market risk

(i) Foreign exchange risk

The Group and the parent entity operates internationally and are exposed to foreign exchange risk arising from various currency exposures, principally to the US dollar and UK sterling following the acquisition of the Prolysis programs.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. Forward contracts are used to manage foreign exchange risk.

The Treasury Management Committee is responsible for managing exposures in each foreign currency by using external forward currency contracts. The Group's risk management policy is to substantially hedge anticipated transactions when net exposures are reasonably certain to occur.

The Group's exposure (Parent entity: Nil) to foreign currency risk at the reporting date was as follows:

	30 June 2010		**30 June 2009**	
	USD	**GBP**	**USD**	**GBP**
Cash	467	39,413	950,155	-
Trade receivables	NIL	Nil	NIL	Nil

The carrying amounts of the financial assets and liabilities are denominated in Australian dollars.

Sensitivity

Based on the financial instruments held at 30 June 2010 the groups foreign exchange exposure is not material.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from investment of available funds in capital guaranteed instruments consistent with the Treasury Management Committee directives. The Group manages its cash flow interest rate risk by using floating and fixed interest rate instruments.

Sensitivity

Based on average cash balances held throughout 2010 the profit after tax impacts for changes in interest rates would be:

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Interest rates		
+/- 50 basis points	209	196
+/- 100 basis points	418	395

(b) Credit risk

The Group has significant concentrations of credit risk. The very nature of Biota's business makes it dependent on a few large pharmaceutical companies, from which it will receive income. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history and expenses are restricted through regular invoicing and cash collection. Derivative counterparties and cash transactions are limited to high credit quality financial institutions with a long term credit rating greater than A-1+ or covered by an Australian Federal Government Guarantee. The Group has policies that limit the amount of credit exposure to any one financial institution and in the last financial year ensured that a significant portion of cash balances were maintained in accounts covered by an Australian Federal Government Guarantee. The following table sets out the cash deposits summary, and an analysis of trade receivables by customer type.

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Cash at bank and short-term bank deposits		
AA/A-1+	98,867	78,704
A/A-1+	3,000	5,000
BBB+/A-2 (government guaranteed)	3,000	3,000
	104,867	86,704
Trade receivables		
New customers (less than 6 months)	-	-
Existing customers (more than 6 months) with no defaults in the past	906	7,583
Total trade receivables	906	7,583

During the year cash at bank and short term bank deposits were placed with institutions whereby approximately 50% of cash holdings were secured by the Australian Federal Government Guarantee.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Treasury Management Committee maintains appropriate cash forecasts to ensure sufficient liquid funds to meet reasonable short term operational needs.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, Biota Holdings Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset of liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

At 30 June 2010 no assets were held at fair value therefore no disclosure is required.

3 CRITICAL ACCOUNT ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Carrying value of intangible assets

In accordance with accounting policies note 1(p), the group predominantly expenses all research costs. The nature of the pharmaceutical industry in regard to drug development and subsequent licensing often means that when a program is licensed there are significant upfront payments with the potential of significant milestone and royalty entitlements. The recoverability of intellectual property carrying values in the balance sheet does not take account of potential licensing or sale transactions, as these cash flows cannot be estimated with sufficient reliability nor can the probability of their occurrence.

The carrying values of intangible assets are supported by anticipated future revenues or benefits arising from the underlying intangible assets. Intangible assets capitalised have been purchased from third parties.

The identification of useful lives of these intangibles also requires judgement. The amortisation of the Royalty Prepayment is based on current year sales as a proportion of the total anticipated future sales. The amortisation of acquired intellectual Property is over the period of economic benefit to the Group, which has been estimated to be up to the next Go/No-go decision point for the relevant project, which is 10 months for both projects acquired in the current year.

(ii) Carrying value of property, plant and equipment

The assets in question represent scientific equipment and facilities used by Biota in the pursuit of their research activities. For accounting purposes these assets are property plant and equipment and subject to the impairment test as described in accounting note 1(j). AASB 136 Impairment of Assets defines the recoverable amount of an asset or group of assets as the higher of its fair value less costs to sell or value in use. Value in use is calculated using the present value of associated future cash flows. There are inherent issues about assessing the recoverability of Biota’s assets because:

(a) Biota is engaged in research activities and therefore future cash flows directly related to the current projects are difficult to predict; and

(b) There is not an active secondary market for such assets and therefore their individual sales/fair value is limited and probably below carrying amount.

The nature of Biota’s activities is such that the assets are classified as corporate assets as defined in AASB 136, being those assets which do not generate cash flows independently of other assets. AASB 136 requires that corporate assets be allocated to other groups of assets and tested for impairment on that basis. Where a reasonable allocation cannot be made to asset groups the standard permits corporate assets to be tested for impairment against entity wide value. Applying this principle our view is that their recoverable amount can therefore be determined as the higher of entity wide cash flows or in this case, Biota’s market value.

(iii) Income tax

The group is subject to income taxes in Australia and jurisdictions where it has, or has had, foreign operations. The group estimates its tax liabilities based on the understanding of the tax laws and advice from tax experts. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period such determinations are made.

The Australian Taxation Office initiated a Comprehensive Tax Review on 30 October 2009 for the 2007-2009 income tax years. This process is at an early stage. The Australian Taxation Office concluded a similar Comprehensive Tax Review for the period 1994 – 2006 in 2007.

In addition the Group may recognise recoverable tax losses, as disclosed in Notes 8 and 13.

In determining the amount to be recognised, management has estimated the amount for which there are sufficient taxable temporary differences and where there is convincing evidence that sufficient future taxable profit will be available. Given the industry the Group operates in, the historic volatility of revenue and that the majority of available losses are transferred (see note 8) management need to conclude that the “convincing evidence” requirements of the standard are met for future taxable income. Management has determined that given these uncertainties, the evidence available for forecast profitability does not support the early recognition of losses beyond those utilised against current year taxable profit. Should actual taxable income be different to this estimate, so too will the amount of tax losses utilised.

4 SEGMENT INFORMATION

(a) Description of segments

Management had determined the operating segments based on the reports reviewed by the strategic steering committee that are used to make strategic decisions.

The committee reviews the business from a divisional perspective (ie Research, Product Development and Corporate) and on a project basis. All projects are anti-infective drug discovery and clinical development activities and so represent one reportable business segment. The Group operates globally in developing its projects and has laboratories in Australia and England.

(b) Segment information provided to the strategic steering committee

The business segment information provided to the strategic steering committee for the reportable segments for the last two financial years is set out in the table below:

Divisions	**Research**		**Product Development**		**Corporate**		**Intersegment elimination**		**Total**	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**	**2010 $'000**	**2009 $'000**	**2010 $'000**	**2009 $'000**	**2010 $'000**	**2009 $'000**
Total segment revenue	1,310	5,847	335	2,636	67,817	53,225	(1,872)	(1,150)	67,590	60,558
Intersegment revenue	766	1,150	-	-	1,106	-	(1,872)	(1,150)	-	-
External revenue	544	4,697	335	2,636	66,711	53,225	-	-	67,590	60,558
Adjusted EBITDA	(19,950)	(6,052)	(7,362)	(5,917)	60,383	65,187	-	(1,150)	33,071	52,068
Depreciation & amortisation	10,271	1,293	9	-	4,185	3,834	-	-	14,465	5,127
Income tax (expense)/credit	4,320	1,973	1,928	1,619	(10,297)	(7,228)	-	-	(4,049)	(3,636)

The chief operating decision maker reviews assets and liabilities on a consolidated basis monthly. Therefore, no measure of segment assets and liabilities is separately disclosed in this report.

Whilst the group advances its programs globally, it has assets in two geographical locations. The following table sets out the location of the group's non current assets:

	Australia		**England**		**Total**	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**	**2010 $'000**	**2009 $'000**
Non current assets	12,841	16,858	2,387	-	15,228	16,858

All revenue is generated by the Group's Australian based operations, although counterparties may be in other countries.

(c) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the income statement. Revenues from external customers are derived from royalty on sales, grants for institutions and funding agreements with partners.

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Total segment revenue	66,941	57,616
Intersegment eliminations	(1,872)	-
Interest revenue	2,513	2,935
Other revenue	8	7
Total revenue from continuing operations (note 5)	**67,590**	**60,558**

(ii) Adjusted EBITDA

A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Adjusted EBITDA	**33,071**	**52,068**
Intersegment eliminations	-	-
Interest revenue	2,513	2,935
Finance costs	(38)	(120)
Depreciation	(1,435)	(1,184)
Amortisation	(13,030)	(3,943)
Legal expenses	-	(7,244)
Share options	(797)	(695)
Profit before income tax from continuing operations	**20,284**	**41,817**

5 REVENUE

	Consolidated 2010 $'000	2009 $'000
From continuing operations		
Royalty income	63,715	45,000
Diagnostic profit share	-	-
Collaboration income		
- Partnering revenue	553	4,426
- Research revenue	801	8,190
	65,069	57,616
Other revenue		
Interest revenue	2,513	2,935
Other revenue	8	7
Revenue from continuing operations	67,590	60,558

6 OTHER INCOME

	Consolidated 2010 $'000	2009 $'000
Grants-Other Governments (note a)	3,875	2,776
Litigation settlement (note b)	-	20,000
Total Other Income	3,875	22,776

(a) Grants - Other Governments

The National Institutes of Health (NIH) has awarded the Group US$14.1 million to complete research and development of the LANI programs, including three Phase I studies. Amounts of $3.9 million (2009:$2.8m) have been recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies related to this portion of the grant.

(b) Litigation settlement

Litigation was concluded in July 2008, following mediation.

7 EXPENSES

	Notes	Consolidated 2010 $'000	2009 $'000
Profit before income tax includes the following specific expenses:			
Depreciation			
- Plant and equipment		921	613
- Leasehold improvements		514	571
Total depreciation		1,435	1,184
Amortisation of computer software		253	225
Loss on disposal of plant and equipment		7	9
Rental expense relating to operating leases			
- Minimum lease payments		792	572
- Sub-leases		116	114
Total rental expense relating to operating leases		908	686
Employee benefits expense		11,093	8,916
Superannuation expense		828	826
Research and development expenses		21,749	13,348
Amortisation of antibacterial intangible assets acquired from Prolysis Ltd and MaxThera Inc.	13	8,777	-
Litigation costs		-	7,244
Finance costs			
- Net foreign exchange loss		38	120
Total finance costs		38	120
Sub-royalty expense			
- Amortisation of royalty prepayment		4,000	3,706
- Change in present value of contingent consideration		96	516
Total sub-royalty expense		4,096	4,222

8 INCOME TAX

The income tax expense for the financial year differs from the amount calculated on the result. The differences are reconciled as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Income tax expense		
Current tax	(3,674)	-
Deferred tax	(375)	(3,636)
	(4.049)	(3,636)
Income tax expense is attributable to:		
Profit from continuing operations	(4,049)	(3,636)
Aggregate income tax expense	(4,049)	(3,636)
Deferred income tax expense included in income tax comprises:		
Decrease in deferred tax assets (note 12)	(375)	(3,636)
	(375)	(3,636)
(b) Numerical reconciliation of income tax expense to prima facie tax		
Profit from continuing operations before income tax expense	20,284	41,817
Tax at the Australian tax rate of 30%	(6,085)	(12,545)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	(239)	(209)
Non-taxable amortisation	(604)	(516)
Net research and development claim	1,875	1,774
Sundry items	(59)	(187)
	(5,112)	(11,683)
Adjustments in respect of UK subsidiary		
- Differences in UK and Australian tax rates	(279)	-
- UK tax losses and timing differences not recognised	(3,896)	-
Previously unrecognised tax losses now assessed as recoverable	5,238	8,047
Income tax expense	(4,049)	(3,636)
(c) Unrecognised temporary differences and tax losses		
Australian		
- Group tax losses	-	3,217
- Transferred tax losses	17,553	31,813
	17,553	35,030
United Kingdom		
- Trading losses and temporary differences	13,918	-
	13,918	-
Total tax losses and temporary differences available to the group	31,471	35,030
Tax effect of unrecognised temporary differences and tax losses for which no deferred tax asset has been recognised	9,163	10,509

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2010 to the extent that the directors do not believe that it is appropriate to regard realisation of the future income tax benefit as probable. Note 3(a)(iii) sets out the estimation of the amount of tax losses brought to account.

The recoverability of all of the unrecognised tax losses is dependent on continuing to meet the relevant tax laws. Group tax losses (those incurred after the group entered into the tax consolidation regime) can be fully offset against future taxable income. Transferred tax losses (those which arose prior to entry into the tax consolidation regime) can only be utilised to the extent allowed by the tax consolidation rules. This only allows utilisation of a proportion of transferred losses in a given year, dependant on the "available fraction" calculation. Currently transferred tax losses are recoverable on a 53.7% basis, ie for every dollar of taxable income only 53.7 cents can be offset by transferred tax losses.

(d) Tax consolidation legislation

Biota Holdings Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(g).

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Cash		
Cash at bank and on hand	78,900	52,704
Deposits at call	25,967	34,000
	104,867	86,704

Cash balances include $2.6 million (2009: $4.6m) in respect of advance payments by the National Institutes of Health to progress the LANI program. This balance can only be used to fund related research expenditure.

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balance per cash flow statements	104,867	86,704

(b) Risk exposure

The exposure to interest rate and counterparty credit risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010	**2009**
	$'000	**$'000**
Trade receivables	907	7,583
Other receivables	104	58
Deposits paid	80	1
Accrued interest	519	215
Prepayments	462	210
	2,072	8,067

(a) Impaired trade receivables

There were no impaired trade receivables for the Group in 2010 (2009: Nil).

(b) Past due but not impaired

Trade and other receivables are not past due.

(c) Foreign exchange and interest rate risk

Trade and other receivables are not exposed to foreign currency risk or interest rate risk (see note 2).

(d) Fair value and credit risk

Due to the nature of these receivables, the carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or re-pledged. Note 2 provides information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

11 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Plant & equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2008			
Cost	8,151	6,550	14,701
Accumulated depreciation	(5,374)	(1,784)	(7,158)
Net book amount	2,777	4,766	7,543
Year ended 30 June 2009			
Opening net book amount	2,777	4,766	7,543
Additions	558	21	579
Disposals	(12)	(2)	(14)
Depreciation charge	(613)	(571)	(1,184)
Closing net book amount	2,710	4,214	6,924
At 30 June 2009			
Cost	5,241	6,474	11,715
Accumulated depreciation	(2,531)	(2,260)	(4,791)
Net book amount	2,710	4,214	6,924
Year ended 30 June 2010			
Opening net book amount	2,710	4,214	6,924
Additions	1,243	38	1,281
Disposals	(8)	-	(8)
Exchange differences	(1)	-	(1)
Depreciation charge	(921)	(514)	(1,435)
Closing net book amount	3,023	3,738	6,761
At 30 June 2010			
Cost	6,452	6,512	12,964
Accumulated depreciation	(3,429)	(2,774)	(6,203)
Net book amount	3,023	3,738	6,761

12 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Notes	Consolidated 2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:			
Tax losses anticipated to be utilised within 12 months		-	1,380
Unrealised foreign exchange losses		23	40
Employee benefits		437	490
Intangibles		193	-
Accruals		264	134
Deferred revenue		783	1,579
Total deferred tax assets		1,699	3,623
Set-off of deferred tax liabilities pursuant to set-off provisions	17	(542)	(2,091)
Net deferred tax assets		1,157	1,532

All movements in deferred tax amounts have been reflected in the income statements.

13 NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Intellectual property $'000	Computer software $'000	Royalty prepayment $'000	Total $'000
At 1 July 2008				
Cost	-	1,284	13,762	15,046
Accumulated amortisation	-	(935)	(1,998)	(2,933)
Net book amount	-	349	11,764	12,113
Year ended 30 June 2009				
Opening net book amount	-	349	11,764	12,113
Additions	-	233	-	233
Write off	-	(13)	-	(13)
Amortisation charge	-	(225)	(3,706)	(3,931)
Closing net book amount	-	344	8,058	8,402
At 30 June 2009				
Cost	-	1,504	13,762	15,266
Accumulated amortisation	-	(1,160)	(5,704)	(6,864)
Net book amount	-	344	8,058	8,402
Year ended 30 June 2010				
Opening net book amount	-	344	8,058	8,402
Additions	12,213	83	-	12,296
Impact of exchange rate movement	(358)	-	-	(358)
Amortisation charge	(8,777)	(253)	(4,000)	(13,030)
Closing net book amount	3,078	174	4,058	7,310
At 30 June 2010				
Cost	12,024	1,586	13,762	27,372
Accumulated amortisation	(8,946)	(1,412)	(9,704)	(20,062)
Net book amount	3,078	174	4,058	7,310

Summary

The group acquired the key assets of Prolysis Limited and MaxThera Inc, on 19 November 2009 and 1 March 2010 respectively. The acquisitions increased the groups portfolio of research projects, particularly in the antibacterial field. Details of the purchase consideration, the net assets acquired and the goodwill are as follows:

	Prolysis Limited $'000	MaxThera Inc $'000	Total $'000
Cash paid	-	1,338	1,338
Shares issued (3,985,240 @ $2.71)	10,800	-	10,800
Shares acquired on market (155,850 @ $2.21)	-	345	345
Total purchase consideration	10,800	1,683	12,483
Assets and liabilities acquired			
Property plant & equipment	270	-	270
Intellectual property	10,530	1,683	12,213
	10,800	1,683	12,483

The intellectual property is attributed to the value in the programs acquired. The appreciation of the Australian dollar against the UK pound resulted in an exchange rate benefit, being charged to the Foreign Currency Translation Reserve.

There were no acquisitions in the year ending 30 June 2009.

14 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2010 $'000	2009 $'000
Current (unsecured)		
Trade payables	7,620	4,285
Other payables	1,807	1,346
	9,427	5,631

(d) Risk exposures

Information of the Group's exposure to foreign exchange risk is provided in note 2.

15 CURRENT LIABILITIES – DEFERRED REVENUE

	Consolidated 2010 $'000	2009 $'000
Deferred revenue	2,610	5,262

Deferred revenue represents:

(i) Amounts received in advance from government grant authorities which will be released to revenue as expenses occur; and

(ii) Upfront receipts from collaborations which will be released to profit over the research collaboration term.

Deferred revenue includes $2.6 million (2009: $4.6m) in respect of advance payments by the National Institutes of Health to progress the LANI programs.

16 CURRENT LIABILITIES – PROVISIONS

	Consolidated 2010 $'000	2009 $'000
Employee benefits	1,422	1,561

Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. Based on experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Consolidated 2010 $'000	2009 $'000
Long service leave obligation expected to be settled after 12 months	266	210

17 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Notes	Consolidated 2010 $'000	2009 $'000
The balance comprises temporary differences attributable to:			
Property, plant & equipment		117	182
Prepayments		1	-
Accrued income		424	1,909
		542	2,091
Set-off of deferred tax assets pursuant to set-off provisions	12	(542)	(2,091)
Net deferred tax liabilities		-	-

All movements in deferred tax liabilities have been reflected in the income statements.

18 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated 2010 $'000	Consolidated 2009 $'000
Employee benefits – long service leave	138	71
Contingent consideration	-	2,072
	138	2,143

Movements in provisions	Consolidated 2010 $'000	Consolidated 2009 $'000
Employee benefits		
At start of year	71	66
Charged to the income statement	30	5
At end of year	101	71
Contingent consideration		
At start of year	2,072	6,556
Interest expense on unwinding of discount	96	516
Payment of contingent consideration	(2,168)	(5,000)
At end of year	-	2,072

Contingent consideration:

The Group entered into arrangements in 2007 where parties agreed to exchange variable royalty payments for use of intellectual property, for a fixed fee. The transaction offered the third parties the opportunity of earning additional payments should Relenza sales exceed specified amounts. Provision had been made for these payments on a present value basis consistent with the Group accounting policy at note 1(r). The final payment was made in April 2010.

19 CONTRIBUTED EQUITY

(a) Share capital	Notes	Consolidated 2010 Shares '000	Consolidated 2009 Shares '000	Consolidated 2010 $'000	Consolidated 2008 $'000
Ordinary shares					
Fully paid	(b) (c)	179,210	174,564	146,626	154,776
Treasury shares	(f)			(251)	(200)
Total contributed equity				146,375	154,576

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$'000
1 July 2008	Opening balance	180,817,823		159,124
16 July 2008	Exercise of options	375,685	$1.21 - $1.86	596
30 September 2008	Cancellation of shares	(6,629,509)	$0.75	(4,932)
30 September 2008	Transaction costs	-	-	(12)
30 June 2009	Balance	174,563,999		154,776
13 July 2009	Exercise of options	383,265	$0.77 - $1.86	457
26 October 2009	Exercise of options	17,518	$0.77 -$1.85	19
12 November 2009	Share issue	3,985,240	$2.71	10,800
3 December 2009	Capital return	-	11.18c	(20,006)
3 December 2009	Treasury shares acquired	-	-	51
1 February 2010	Exercise of options	28,445	$1.40 -$1.85	47
27 April 2010	Share issue	206,279	$2.22	459
25 May 2010	Exercise of options	25,241	$0.77 - $1.85	23
30 June 2010	Balance	179,209,987		146,626

(c) Options

Information relating to the Biota employee option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, are set out in the Remuneration report and in notes 22 and 23.

(d) Rights attached to ordinary shares

Ordinary shares have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(e) Share buy-back

In 2009, the company purchased 6,629,509 shares on-market as part of Biota's capital management strategy. The shares were acquired at an average price of $0.75, with prices ranging from $0.63 to $0.79. The total cost of $4,944,000 including $12,000 of transaction costs, was deducted from ordinary share capital when the shares were cancelled. There is no current on-market buy-back.

(f) Treasury shares

Treasury shares are shares in Biota Holdings Limited that are held by the Biota Holdings Employee Share Trust for the purpose of issuing shares under the Biota employee option plan. During the year 23,479 (2009: 456,300) shares were acquired at a cost of $51,000 (2009:$200,000).

(g) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. On 13 August 2009, Biota announced a $20 million return to shareholders following an extensive review of its cash requirements for growth and trading conditions.

20 RESERVES AND ACCUMULATED LOSSES

	Consolidated	
	2010	**2009**
	$'000	**$'000**
(a) Reserves		
Share-based payments	1,787	1,536
Foreign currency translation	(421)	-
	1,366	1,536
Movements		
Share-based payments reserve		
Balance 1 July	1,536	1,437
Equity retention incentive expense for the year	608	536
TSR equity incentive expense for the year	189	159
Transfer to share capital (options exercised)	(546)	(596)
Balance 30 June	1,787	1,536
Foreign currency translation reserve		
Balance 1 July	-	-
Currency translation differences arising during the year	(421)	-
Balance 30 June	(421)	-
(b) Accumulated losses		
Balance 1 July	(59,080)	(97,261)
Net profit attributable to the members of Biota Holdings Limited	16,235	38,181
Balance 30 June	(42,845)	(59,080)

(c) Nature and purpose of reserves

The share-based payments reserve is used to recognise:

- The fair value of options issued to employees but not exercised;
- The fair value of shares issued to employees;
- In the group – the issue of shares held by the Biota Holdings Employee Share Trust to employees; and
- In the parent entity – the fair value of shares and options issued to employees of subsidiaries and the funding of share purchases by the Biota Holdings Employee Share Trust.

The foreign currency translation reserve is exchange differences arising on translation of the foreign controlled entity and is also recognised in other comprehensive income as described in note 1(d).

21 DIVIDENDS

The Company returned $20 million (11.18 cents per share) to shareholders as a capital return in December 2009. Following a Class Ruling, the Australian Taxation Office Commissioner has concluded for taxation purposes that 6.26 cents per share will be regarded as a capital return and 4.92 cents per share will be regarded as an unfranked dividend. The Company does not intend to declare a dividend at this time.

Franking credits available at the 30% tax rate after allowing for tax payable in respect of the current year's taxable income, for the year ended 30 June 2010, are $4,168,101 (2009: $494,366).

22 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated	
	2010	**2009**
	$	**$**
Short-term employee benefits	2,484,336	2,495,018
Post-employment benefits	160,440	131,976
Long-term benefits	13,222	26,091
Share-based payments	188,615	341,610
	2,846,613	2,994,695

(b) Equity instrument disclosures relating to key management personnel

(i) Provided as remuneration and shares issued on exercise

Details of shares allocated as remuneration and shares issued, together with terms and conditions of the options, are set out in section D of the Remuneration report.

(ii) Summary of shares allocated

Details of shares allocated and which vested to each director and each of the key management personnel of the Group are set out below.

Summary of shares allocated and vested to directors and key management personnel												
		NEDSOP & Equity retention incentive shares						**TSR Equity incentive shares**				
		Balance at the start of the year or on appointment	**Allocated during the year**	**Exercised during the year**	**Lapsed during the year**	**Balance at the end of the year or on resignation**	**Number vested at end of year**	**Balance at the start of the year or on appointment**	**Allocated during the year**	**Exercised during the year**	**Balance at the end of the year or on resignation**	**Number vested at end of year**
Non-executive director												
Barbara Gibson	2010	n/a	-	-	-	-	n/a	n/a	-	-	n/a	n/a
(resigned 17/12/08)	2009	75,050	-	-	(75,050)	-	-	-	-	-	-	-
Executive director												
Peter Cook	2010	193,572	-	-	-	193,572	193,572	976,300	-	-	976,300	282,037
	2009	193,572	-	-	-	193,572	193,572	520,000	456,300	-	976,300	15,600
Other key management personnel												
Damian Lismore	2010	32,543	-	(32,543)	-	-	-	418,430	129,354	(6,686)	541,098	114,188
	2009	100,912	-	(68,369)	-	32,543	32,543	222,858	195,572	-	418,430	6,686
Other key management personnel of the Group												
Simon Tucker	2010	30,873	-	-	-	30,873	30,873	362,144	111,969	-	474,113	104,603
	2009	93,232	-	(62,359)	-	30,873	30,873	192,858	169,286	-	362,144	5,787
Jane Ryan	2010	86,645	-	-	-	86,645	86,645	362,144	111,969	-	474,113	104,603
	2009	86,645	-	-	-	86,645	86,645	192,858	169,286	-	362,144	5,787
Leigh Farrell	2010	28,841	-	(28,841)	-	-	-	362,144	111,969	-	474,113	104,603
	2009	64,600	-	(35,759)	-	28,841	28,841	192,858	169,286	-	362,144	5,787
John Lambert	2010	16,615	-	(16,615)	-	-	-	322,145	99,685	(5,144)	416,686	87,837
	2009	46,543	-	(29,928)	-	16,615	16,615	171,430	150,715	-	322,145	5,144
Total	**2010**	**389,089**	**-**	**(77,999)**	**-**	**311,090**	**311,090**	**2,803,307**	**564,946**	**(11,830)**	**3,356,423**	**764,910**
	2009	**660,554**	**-**	**(196,415)**	**(75,050)**	**389,089**	**389,089**	**1,492,862**	**1,310,445**	**-**	**2,803,307**	**44,791**

(iii) Share dealings by directors and key management personnel

Details of the movement in the number of ordinary shares held directly, indirectly or beneficially by directors and key management personnel, including their personally-related entities are set out below.

		Balance at the start of the year or on appointment	**Purchases during the year**	**Shares received on the exercise of options**	**Sales during the year**	**Balance at the end of the year or on resignation**
Non-executive directors						
Jim Fox – *Chair*	2010	110,000	-	-	-	110,000
(appointed 27/2/09)	2009	-	110,000	-	-	110,000
Paul Bell	2010	50,000	-	-	-	50,000
	2009	50,000	-	-	-	50,000
Jeff Errington	2010	-	-	-	-	-
(appointed 1/2/10)	2009	n/a	n/a	n/a	n/a	n/a
Ian Gust	2010	458,036	75,000	-	-	533,036
	2009	408,036	50,000	-	-	458,036
Richard Hill	2010	-	-	-	-	-
(appointed 28/11/08)	2009	-	-	-	-	-
Grant Latta	2010	160,000	-	-	-	160,000
	2009	160,000	-	-	-	160,000
Barbara Gibson	2010	n/a	n/a	n/a	n/a	n/a
(resigned 17/12/08)	2009	90,820	-	-	-	90,820
John Grant	2010	n/a	n/a	n/a	n/a	n/a
(resigned 27/2/09)	2009	807,551	-	-	-	807,551
Executive director						
Peter Cook	2010	141,200	-	-	-	141,200
	2009	141,200	-	-	-	141,200
Other key management personnel						
Damian Lismore	2010	215,263	-	39,229	-	254,492
	2009	146,894	-	68,369	-	215,263
Other key management personnel of the Group						
Simon Tucker	2010	427,814	-	-	90,000	337,814
	2009	364,954	-	62,359	-	427,814
Jane Ryan	2010	480,968	-	-	40,000	440,968
	2009	480,968	-	-	-	480,968
Leigh Farrell	2010	56,696	-	28,441	46,000	44,087
	2009	20,937	-	35,759	-	56,696
John Lambert	2010	237,127		21,759	170,000	88,886
	2009	207,199	-	29,928	-	237,127
Steve Ruston	2010	-	-	-	-	-
(appointed 19/11/09)	2009	n/a	n/a	n/a	n/a	n/a

(c) Loans to key management personnel

There are no loans made to key management personnel of the Company or the Group during the year.

(d) Other transactions with key management personnel

There are no other transactions with key management personnel of the Company or the Group during the year.

23 SHARE-BASED PAYMENTS

(a) Biota employee option plan

All employees can participate in the growth of the Company. Under the Biota employee option plan (BEOP), shares are allocated and normally vest based on achievement of pre-set performance targets, death, permanent disability, takeover or under Board discretion. Awards under the BEOP are performance rights, either under the Equity Retention Incentive or the TSR Equity programs. Full details of each program are included in Section A of the Remuneration report.

The following tables set out shares allocated, exercised and forfeited during F2010 and F2009.

Consolidated and parent entity – 2010

Grant date	Expiry date	Exercise price	Balance at start of the year (Number)	Granted during the year (Number)	Exercised during the year (Number)	Forfeited during the year (Number)	Balance at end of the year (Number)	Vested and exercisable at end of the year (Number)
Equity retention incentive plan								
21 July 2006	30 June 2011	Nil	33,332	-	-	-	33,332	33,332
25 Oct 2006	30 June 2011	Nil	72,314	-	-	-	72,314	72,314
8 Aug 2007	30 June 2012	Nil	257,246	-	173,060		84,186	84,186
24 Oct 2007	30 June 2012	Nil	121,258	-	-	-	121,258	121,258
22 Aug 2008	30 June 2013	Nil	567,233	-	269,579	4,861	292,793	292,793
29 June 2010	30 June 2014	Nil	-	560,986	-	-	560,986	-
TSR equity incentive plan								
31 Oct 2007	30 June 2012	Nil	972,862	-	11,830	-	961,032	515,834
21 Dec 2007	30 June 2012	Nil	520,000	-	-	-	520,000	282,037
22 Aug 2008	30 June 2013	Nil	1,310,445	-	-	-	1,310,445	-
29 June 2010	30 June 2014	Nil	-	564,946	-	-	564,946	-
Total			**3,854,690**	**1,125,932**	**454,469**	**4,861**	**4,521,292**	**1,401,754**

Consolidated and parent entity – 2009

Grant date	Expiry date	Exercise price	Balance at start of the year (Number)	Granted during the year (Number)	Exercised during the year (Number)	Forfeited during the year (Number)	Balance at end of the year (Number)	Vested and exercisable at end of the year (Number)
NEDSOP								
6 Dec 2000	6 Dec 2008	$4.44	75,050	-	-	75,050	-	-
Equity retention incentive plan								
21 July 2006	30 June 2011	Nil	191,027	-	157,695	-	33,332	33,332
25 Oct 2006	30 June 2011	Nil	72,314	-	-	-	72,314	72,314
8 Aug 2007	30 June 2012	Nil	493,752	-	217,990	18,516	257,246	257,246
24 Oct 2007	30 June 2012	Nil	121,258	-	-	-	121,258	121,258
22 Aug 2008	30 June 2013	Nil	-	606,864	-	39,631	567,233	283,625
TSR equity incentive plan								
31 Oct 2007	30 June 2012	Nil	972,862	-	-	-	972,862	29,191
21 Dec 2007	30 June 2012	Nil	520,000	-	-	-	520,000	15,600
22 Aug 2008	30 June 2013	Nil	-	1,310,445	-	-	1,310,445	-
Total			**2,446,263**	**1,917,309**	**375,685**	**133,197**	**3,854,690**	**812,566**

The weighted average share price at the date of exercise of all options exercised during the year ended 30 June 2010 was $1.45 (2009: $0.75). The weighted average remaining contractual life of share options outstanding at the end of the period was 2.9 years (2009: 3.5 years).

Fair Value of options granted

The assessed fair value at allocation date of each share under each incentive plan during the year ended 30 June 2010 was:

- Equity retention incentive plan $0.92
- TSR equity incentive plan $0.95

The fair value of the Equity retention incentive plan is determined as the share price at allocation date. The fair value of the TSR equity incentive plan has been independently determined by Ernst & Yong ABC Pty Ltd using a Monte-Carlo simulation with inputs including the period of the award, the conditions of the award, the share price at allocation date, volatility, interest rates and dividend yield.

(b) Expense arising from share-based payment

Total expenses arising from share-based payment transactions recognised as part of employee benefit expense during the period were as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000
Options issued under Biota employee option plan	797	695

24 REMUNERATION OF AUDITORS

During the year the following were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2010 $	2009 $
Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	120,000	121,000
		-
Audit of grant returns	30,000	30,000
Other assurances	10,000	-
Non PricewaterhouseCoopers audit firm (Richardsons)	12,500	-
Total	172,500	151,000

No further amounts were paid or payable to any related practice of PricewaterhouseCoopers. It is the Group's policy to employ its auditor on assignments additional to their statutory audit duties only where their expertise and experience with the Group are important. Assignments are otherwise awarded on a competitive basis.

25 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There are no contingent liabilities or assets to be recognised at 30 June 2010.

26 COMMITMENTS

(a) Lease commitments: Group as lessee

(i) Non-cancellable operating lease

The Group leases various offices under non-cancellable operating leases expiring within two to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2010 $'000	2009 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- Within one year	581	529
- Later than one, not later than five years	1,123	1,633
- Later than five years	-	-
	1,704	2,162

(b) Research commitments

	Consolidated	
	2010 $'000	2009 $'000
The Company and its controlled entities have entered into agreements with certain organisations for ongoing research and clinical trials. Under these agreements the Company and its controlled entities are committed to providing funds over future periods, payable:		
- Within one year	18,083	2,805
- Later than one year but not later than two years	657	-
- Later than two years but not later than five years	-	-
	18,740	2,805

Of the committed funds, approximately $16million (2009-$Nil) is available for cancellation if a decision is made, at the date of this report, to terminate the project to which the commitment relates.

27 RELATED PARTY TRANSACTIONS

(a) Parent entity and controlling entity

The parent entity and ultimate controlling entity within the Group is Biota Holdings Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 28.

(c) Key management personnel

Transactions with key management personnel were solely in relation to remuneration. Disclosures of these amounts are set out in note 22.

(d) Wholly-owned Group

Interest held in the controlled entities is disclosed in note 28.

Transactions between Biota Holdings Limited and related parties in the wholly-owned Group during the years ended 30 June 2010 and 30 June 2009 consisted of amounts advanced by Biota Holdings Limited. Aggregate amounts receivable from entities in the wholly-owned Group at balance date were:

	Parent entity 2010 $	2009 $
Non-current receivables (loans)	70,421,171	68,317,682
Provision for doubtful debts	(70,421,171)	(68,317,682)

Aggregate amounts brought to account in relation to other transactions with each class of other related parties:

	$	$
Loans to subsidiaries		
Beginning of the year	68,317,682	70,490,229
Loan repayments received	(35,433,028)	(66,725,572)
Loans advanced	37,536,517	64,553,025
End of the year	70,421,171	68,317,682

28 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding and voting power 2010 %	2009 %
Biota Scientific Management Pty Ltd*	Australia	Ordinary	100	100
Biota Investments Pty Ltd	Australia	Ordinary	100	100
Biota Respiratory Research Pty Ltd	Australia	Ordinary	100	100
Biota Europe Limited	England	Ordinary	100	n/a

***** This subsidiary has been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 33.

29 PARENT ENTITY INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent entity 2010 $'000	2009 $'000
Balance sheet		
Current assets	17,901	28,837
Total assets	27,215	30,722
Current liabilities	607	924
Total liabilities	786	930
Net assets	26,429	29,792
Shareholders' equity		
Issued capital	146,575	154,576
Reserves		
- Available-for-sale financial assets	-	-
- Cash flow hedges	-	-
- Share-based payments	1,586	1,536
Accumulated losses	(126,320)	(137,687)
Profit for the year	4,588	11,367
Total shareholders' equity	26,429	29,792
Profit for the year	4,588	11,367
Total comprehensive income	4,588	11,367

There are cross guarantees given by Biota Holdings Limited, and Biota Scientific Management Pty Ltd as described in note 33. No deficiencies of assets exist in any of these entities.

A letter of support has been provided by Biota Holdings Limited to provide funds to Biota Europe Limited for the foreseeable future.

No liability was recognised by the parent entity or the consolidated entity in relation to these guarantees, as the fair value of the guarantee is immaterial.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (2009: $Nil).

30 EVENTS OCCURRING AFTER REPORTING DATE

On 26 July 2010, Biota announced a Human rhinovirus (HRV) Phase II clinical trial was underway in patients with chronic asthma. Biota is budgeting to invest $25 million over two years on its HRV program and a successful trial outcome should significantly enhance the value of any future license.

Apart from the foregoing, no matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

(a) The Group's operations in future financial years;

(b) The results of those operations in future financial years; or

(c) The Group's state of affairs in future financial years.

31 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	Consolidated 2010 $'000	Consolidated 2009 $'000
Cash flow information			
Profit for the year		16,235	38,181
Depreciation and amortisation		14,465	5,115
Loss on disposal of plant and equipment		7	9
Net exchange difference		1	-
Share based payments		797	695
Changes in assets and liabilities			
Decrease in trade debtors and other debtors		5,994	(3,797)
Decrease in deferred tax asset	8	375	3,636
Increase in trade creditors and other liabilities		4,695	(7,319)
Increase in provisions		(72)	(4,041)
Net cash inflow from operating activities		42,620	32,479

Non-cash transactions in regards to the purchase of intangibles consisted of the issue of 4,141,090 shares (note 13).

32 EARNINGS PER SHARE

	Consolidated 2010 Cents	Consolidated 2009 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of company	9.2	21.7
From discontinued operations	-	-
Total basic earnings per share attributable to the ordinary equity holders of the company	9.2	21.7
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	9.1	21.6
From discontinued operations	-	-
Total diluted earnings per share attributable to the ordinary equity holders of the company	9.1	21.6

(c) Reconciliations of earnings used in calculating earnings per share

	Consolidated 2010 $'000	Consolidated 2009 $'000
Net profit attributed to the ordinary equity holders of the company used in calculating basic earnings per share	16,235	38,181
Net profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	16,235	38,181

(d) Weighted average number of shares used as the denominator

	Consolidated 2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	177,506,986	176,218,530
Adjustments for calculation of diluted earnings per share		
- Shares allocated	1,123,825	237,723
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	178,630,811	176,456,253

(e) Information concerning the classification of securities

(i) Shares allocated

Shares allocated to employees under the Biota employee option plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. They have not been included in the determination of basic earnings per share.

33 DEED OF CROSS GUARANTEE

Biota Holdings Limited and Biota Scientific Management Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investment Commission.

(a) Consolidated income statement and a summary of movements in consolidated retained profits

The above companies represent a "Closed Group" for the purpose of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Biota Holdings Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in the consolidated retained profits for the year ended 30 June 2010 of the Closed Group consisting of Biota Holdings Limited and Biota Scientific Management Pty Ltd.

	2010 $'000	2009 $'000
Revenues from continuing operations	68,779	59,429
Other income	3,875	22,776
Expenses		
Research and development	(17,543)	(13,347)
- Amortisation of antibacterial assets acquired	(673)	-
Product development	(11,529)	(11,300)
Business development	(1,016)	(982)
Sub-royalty	(4,096)	(4,222)
Corporate - head office	(3,601)	(4,301)
Corporate – litigation	-	(7,244)
Finance cost	(38)	(120)
Profit before tax	34,158	40,689
Income tax expense	(4,049)	(3,604)
Profit after tax	30,109	37,085
Summary of movements in accumulated losses		
At the beginning of the financial year	(50,413)	(87,498)
Profit for the year	30,109	37,085
At the end of the financial year	(20,304)	(50,413)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2010 of the Closed Group consisting of Biota Holdings Limited and Biota Scientific Management Pty Ltd.

	2010 $'000	2009 $'000
ASSETS		
Current assets		
Cash and cash equivalents	99,801	82,599
Trade and other receivables	1,865	8,067
	101,666	90,666
Non-current assets		
Receivables	29,975	12,739
Property, plant and equipment	6,443	6,924
Deferred tax assets	1,157	1,532
Current tax receivable	-	32
Intangible assets	5,240	8,402
	42,815	29,629
Total assets	144,481	120,295
LIABILITIES		
Current liabilities		
Trade and other payables	8,916	5,631
Deferred revenue	2,610	5,262
Current tax liability	3,641	
Provisions	1,319	1,561
	16,486	12,454
Non-current liabilities		
Provisions	138	2,143
	138	2,143
Total liabilities	16,624	14,597
Net assets	127,857	105,699
EQUITY		
Contributed equity	146,575	154,576
Reserves	1,586	1,536
Accumulated losses	(20,304)	(50,413)
Total equity	127,857	105,699

In the directors' opinion:

(a) the financial statements and notes set out on pages 25 to 56 are in accordance with the Corporations Act 2001, including:

- Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(c) the remuneration disclosures set out on pages 16 to 23 of the directors' report comply with Accounting Standards AASB124 *Related Party Disclosures* and the *Corporations Regulations 2001;* and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 33.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Peter Cook Director	Jim Fox Director

Melbourne
20 August 2010

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of Biota Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Biota Holdings Limited the company, which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Biota Holdings Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Biota Holdings Limited (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Biota Holdings Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 16 to 23 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Biota Holdings Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
20 August 2010

The shareholder information set out below was applicable as at 10 August 2010.

A Unquoted equity securities

Unquoted equity securities	Number on issue	Number of holders
Options issued		
Under the Biota Employee Option Plan	4,487,126	54
Less Treasury shares purchased	(456,300)	
Available as new shares subject to performance criteria	4,030,826	

B Distribution of equity securities

	Holders	Ordinary shares	%
1-1,000	4,890	2,844,637	1.59
1,001-5,000	4,401	12,447,518	6.94
5,001-10,000	2,192	17,142,905	9.56
10,001-100,000	2,229	51,922,123	28.96
100,001 - and over	121	94,886,970	52.94
Totals	13,833	179,244,153	100.00
Holders with less than marketable parcel of 500 securities	1,904	463,459	

C Twenty largest equity security holders

The names of the twenty largest holders of equity securities as at 10 August 2010 are set out below:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
Cogent Nominees Pty Limited	23,061,390	12.87
JP Morgan Nominees Australia Limited	7,331,844	4.09
ANZ Nominees Limited	7,008,371	3.91
Arora Constructions Pty Ltd	6,125,000	3.41
HSBC Custody Nominees (Australia) Limited	5,306,179	2.96
National Nominees Limited	4,331,459	2.42
Citicorp Nominees Pty Limited	3,989,111	2.23
Promic Limited	3,985,240	2.22
Woodross Nominees Pty Ltd	1,869,731	1.04
Asia Union Investments Pty Ltd	1,740,375	0.97
Albeni Superannuation Pty Ltd	1,647,019	0.92
Mr Graeme Anthony McDonald & Mrs Susan Wendy McDonald	1,374,452	0.77
LJ Thomson Pty Ltd	1,011,196	0.56
ABN Amro Clearing Sydney Nominees Pty Ltd	969,594	0.54
Queensland Investment Corporation	877,586	0.49
AMP Life Limited	838,223	0.47
HSBC Custody Nominees (Australia) Limited-GSCO ECA	770,225	0.43
Phillip Asset Management Ltd	730,000	0.41
Dr Marc Gregory Achen	700,000	0.39
Sandhurst Trustees Ltd	687,477	0.38
	74,354,472	41.48

D Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
Name	**Number Held**	**Percentage of issued shares**
Hunter Hall Investments Management Ltd	21,178,635	12.10

E Voting Rights

On a show of hands each person as a member, proxy, attorney or representative has one vote, and on poll, each member present or by proxy, attorney or representative has one vote for each share held.