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Biota Holdings Limited
ABN 28 006 479 081

ASX Preliminary Final Report
Lodged with the ASX under Listing Rule 4.3
Year ended 30 June 2010
(Previous corresponding period: Year ended 30 June 2009)

Results for announcement to the market

				$'000
Revenue from ordinary activities	Up	12%	To	67,590
Profit from ordinary activities after tax attributable to members	Down	57%	To	16,235
Profit for the period attributable to members	Down	57%	To	16,235

Explanation of Revenue

Refer to the attached release entitled "Biota delivers net profit of $16.2 million" and Note 5 to the Financial Report for the year ended 30 June 2010.

Explanation of Profit/(Loss) from ordinary activities after tax attributable to members

Refer to attached release entitled "Biota delivers net profit of $16.2 million".

Dividends

Biota Holdings Limited 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.

Financial Statements

Refer to attached Financial Report.

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Supplementary Information

Additional dividend/distribution information
No additional information.

Dividend/distribution reinvestment plans
The company does not have a dividend or distribution reinvestment plan.

Retained earnings/accumulated losses
Refer to Note 20 to the Financial Report.

NTA Backing	2010	2009
Net tangible assets per share	54 cents	49 cents

Controlled entities acquired or disposed of
Biota Europe Limited was incorporated on 21 October 2009 and subsequently acquired the antibacterial assets of Prolysis Limited.

Associates and joint venture entities
N/A.

Other significant information
Refer to the attached release entitled "Biota delivers net profit of $16.2 million".

Commentary on results
Refer to attached release entitled "Biota delivers net profit of $16.2 million".

Audit
The accounts are in the process of being audited.

Damian Lismore
Company Secretary
18 August 2010

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For Immediate Release

Melbourne, Australia — 18 August 2010

Biota announces net profit of $16.2 million

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 (NDA) filed in Japan in February 2010
- Pipeline strengthened and broadened with 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

Biota Holdings Limited (ASX: BTA) today announced a full year net profit after tax of $16.2 million, (F09: $38.2m). Profit before tax was $20.3 million (F09: $41.8m).

Total revenue at $71.5 million, compared to $83.3 million in F09. Relenza royalties were $63.7 million (F09: $45.0m), the highest year since product launch. Income from licensing agreements with AstraZeneca and Boehringer Ingelheim was $1.4 million (F09: $12.6m) and grant income of $3.9 million (F09: $2.8m) was provided by the US National Institutes of Health (NIH). In F09, $20 million was included as revenue following the conclusion of litigation.

Commenting on the results today, Biota CEO Peter Cook said:

"This is another strong result, with good profitability and a further increase in our cash reserves to around $105 million. Key projects, in particular laninamivir and HRV, have made good clinical progress during the year and we successfully strengthened our development pipeline with the assets of Prolysis and Maxthera.

"I am delighted that we were able to grow the business as well as return $20 million to shareholders during the year while maintaining a strong cash position."

Reported expenses were $51.2 million (F09: $41.5m) reflecting:

- Increased investment in research programs of $21.7 million, particularly the new antibacterial programs acquired from Prolysis. In addition, $8.8 million of acquisition cost was amortised in the year; and

- Product development costs at $11.2 million focussed on laninamivir and the BTA798 HRV program. $3.9 million of these costs were reimbursed by the NIH.

Income tax expense was $4 million and provision has been made for a tax payment of $3.7 million.

A payment of $20 million was made to shareholders during the year and cash balances increased to $104.9 million at 30 June 2010. The retention of strong cash balances protects the company's development programs from the volatility in royalty income.

Other Significant Events

- Royalties increased from GSK's Relenza sales buoyed by the swine flu pandemic. GSK invested heavily to increase its annual production capacity of Relenza to 190 million courses. While the increased production capacity should ensure Relenza achieves an appropriate share of future orders, influenza in both its seasonal and pandemic forms has proven to be highly unpredictable and as a result makes future sales or royalty forecasts difficult;
- Significant progress with Biota's long acting neuraminidase inhibitor (second generation influenza drug) laninamivir including:
    - Successful completion of Phase III clinical trials for the treatment of influenza in a series of multi-centred Asian studies;
    - Filing of an NDA in Japan in February 2010;
    - Commencement of Phase III prevention studies in November 2009 in Japan; and
    - Completion of additional clinical studies in the UK, funded by the US National Institutes of Health.
- $20 million was paid to shareholders in December 2009, after shareholder approval was obtained for the capital return at the 2009 Annual General Meeting. 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; and
- The commencement of a Phase IIb clinical trial of the human rhinovirus antiviral BTA798 in patients with chronic asthma.

Outlook

The Company is committed to advancing its programs as previously advised; particularly those in relation to Human rhinovirus, Respiratory syncytial virus and the key programs from recent acquisitions. Key investment decisions were made and committed to in F2010. 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 sees it as appropriate to preserve capital and indicates that it will review the payment of a dividend after the first six months results are to hand, which should provide greater clarity on FY2011 royalties and the progress of Biota's key programs. At that stage and following the company's tax payment in February 2011, the position of franking credits will also have been established.

The Board is confident that considerable progress is being made on all projects. The registration process is well underway in Japan on LANI and the renewed RSV program is ahead of plan. While the outlook for Relenza royalties is uncertain in 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.

About Biota

Biota is a leading anti-infective drug development company based in Melbourne Australia, with key expertise in respiratory diseases, particularly influenza. Biota developed the first-in-class neuraminidase inhibitor, zanamivir, subsequently marketed by GlaxoSmithKline as Relenza. Biota research breakthroughs include a series of candidate drugs aimed at treatment of respiratory syncytial virus (RSV) disease and Hepatitis C (HCV) virus infections. Biota has clinical trials underway with its lead compound for human rhinovirus (HRV) infection in patients with compromised respiration or immune systems.

In addition, Biota and Daiichi Sankyo co-own a range of second generation influenza anti-virals, of which the lead product laninamivir, is in late stage clinical development.

Relenza™ is a registered trademark of the GlaxoSmithKline group of companies.
**Further information available at www.biota.com.au*

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FINANCIAL REPORT

	Notes	Consolidated 2010 $'000	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		9.2	21.7
Diluted earnings per share		9.1	21.6
Earnings per share attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share		9.2	21.7
Diluted earnings per share		9.1	21.6

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

	Notes	Consolidated 2010 $'000	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	Consolidated 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		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, 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 after1 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 2010/1January 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 $'000	2009 $'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 $'000	2009 $'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 o thee 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	**2009**
	$'000	**$'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	**2009**
	$'000	**$'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

		Consolidated	
	Notes	**2010**	**2009**
		$'000	**$'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:

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

Movements in provisions	Consolidated	
	2010 $'000	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	 2009 Shares '000	Consolidated 2010 $'000	 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 $'000	2009 $'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).