

*For Immediate Release*

Melbourne, Australia — 9 August 2007

## **Biota delivers Profit after tax of \$20.2m**

### **HIGHLIGHTS**

- **Profit after tax \$20.2 million (F2006 loss \$11.3 million)**
- **Strong cash balances at \$62 million**
- **US\$102m HCV collaboration agreement with Boehringer Ingelheim**
- **Three products in clinic**
  - LANI Phase I completed in Japan, UK trial commenced
  - HRV Phase I completed
  - RSV Phase I commenced in July 2007
- **Amended Statement of Claim filed in March and the updated Particulars of Loss and Damage filed in July in litigation case against GSK**

Biota Holdings Limited (ASX:BTA) today announced a full year profit after tax of \$20.2 million after initial booking of deferred tax assets. This compares to a loss of \$11.3 million in the prior year. Profit before tax was \$17.8 million. The result was driven by strong revenue growth from Relenza royalties and licensing and collaboration income.

Relenza royalties grew strongly to \$39.8 million (2006: \$5.2m) as a result of increased production by GlaxoSmithKline (GSK) in response to government orders for influenza pandemic stockpiles. Collaboration income was \$13 million (2006: \$5.2m), the result of upfront payments and fee for service work flowing from licensing agreements with MedImmune Inc. and more recently with Boehringer Ingelheim.

Costs increased to \$39.5 million (2006: \$26.3m) reflecting:

- The investment in research activities of \$8.2 million (2006: \$7.7m) required by the MedImmune and Boehringer Ingelheim licence agreements, the costs of which were fully reimbursed;
- The investment in product and clinical development programs of \$10.3 million (2006:\$8.4m), notably for respiratory syncytial virus (RSV) and human rhinovirus (HRV). The RSV costs were reimbursed by MedImmune; and
- The continued investment in the litigation against GSK of \$10.4 million (2006: \$4.4m) which reflects the extended discovery phase, the lodgement of the Amended Statement of Claim and the preparation of witness statements.

Commenting on the announcement today, Biota CEO Peter Cook said, "*This is an outstanding result for the Company. We have delivered a strong full year profit driven by both Relenza royalties and collaboration income, secured an important licence with Boehringer Ingelheim and in addition, now have three Biota programs in the clinic.*"

## **SIGNIFICANT EVENTS**

### **Programs**

- **A research collaboration and licensing agreement with Boehringer Ingelheim** was signed in November 2006 to develop and commercialise Biota's novel nucleoside analogues designed to treat hepatitis C virus (HCV) infections and potentially other diseases. Biota may receive payments of up to US\$102 million based on the achievement of certain specified milestones and additionally, royalties on the sales of any resultant commercial products.
- In Japan, the long acting neuraminidase inhibitor **(LANI) CS8958 completed Phase I trials** in Japan with comparable studies underway in the UK.
- Biota was awarded up to **US\$8.5 million from the US National Institute of Allergy and Infectious Diseases**, an institute of the National Institutes of Health (NIH). The funding, over four years (subject to the availability of NIH funds and satisfactory progress), is to meet the preclinical development costs of our back up LANI program, called FLUNET. The FLUNET compounds are novel and have a dimeric structure derived from zanamivir.
- Biota's lead compound for the treatment of **HRV** infection in patients with compromised respiration/immune systems has **completed Phase I clinical studies**. The Company is now planning to conduct Phase IIa clinical trials.
- Subsequent to the year end, Biota announced that the lead **RSV compound had entered Phase I** clinical trials. The RSV program was licensed to MedImmune in December 2005 and the initial milestone of US\$3 million under the licence agreement was triggered, with the first dosing in humans.

### **Litigation against GSK**

The litigation against GSK in the Supreme Court of Victoria, for GSK's failure to use its best endeavours in the development and marketing of Relenza, has progressed to plan. The company lodged its Amended Statement of Claim in March and filed its updated Particulars of Loss and Damage on 31 July 2007, with damages claimed of \$564-\$704 million. GSK lodged their Defence documents with the Court on 16 July 2007. The trial is scheduled to commence on 1 April 2008.

### **Strong cash management**

Cash balances at 30 June 2007 were \$62.2m, significantly higher than last year at \$46.2m.

## **About Biota**

Biota is a leading antiviral 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 have included a series of candidate drugs aimed at treatment of respiratory syncytial virus (RSV) disease, licensed to MedImmune Inc. and novel nucleoside analogues designed to treat hepatitis C virus (HCV) infections, licensed to Boehringer Ingelheim. 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 has key partnerships with Daiichi-Sankyo for the development of second generation influenza antivirals and with Inverness Medical to market Biota developed OIA FLU influenza diagnostics.

Relenza™ is a registered trademark of the GlaxoSmithKline group of companies.

BioStar® OIA® FLU and BioStar® OIA® FLU A/B are registered trademarks of Inverness Medical.

*\*Further information available at [www.biota.com.au](http://www.biota.com.au).*

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# **ASX Preliminary Final Report – 30 June 2007**

**Lodged with the ASX under Listing Rule 4.3**

**This information should be read in conjunction with  
the 30 June 2007 Annual Report.**

## Corporate Directory

### Directors

John Grant (Chairman)  
Paul Bell  
Peter Cook (Chief Executive Officer)  
Barbara Gibson  
Ian Gust  
Grant Latta

### Company Secretary

Damian Lismore (Chief Financial Officer)

### Registered & Corporate Office

10/585 Blackburn Road  
Notting Hill VIC 3168 Australia  
P: +61 3 9915 3700  
F: +61 3 9915 3702

E: [info@biota.com.au](mailto:info@biota.com.au)  
W: [www.biota.com.au](http://www.biota.com.au)

### Share Registry

Link Market Services Limited  
Locked Bag A14 Sydney NSW 1235  
T: 1300 554 474 (within Australia)  
T: +61 2 8280 7111 (outside Australia)  
F: +61 2 9287 0303  
E: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
W: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

### Stock Exchange

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

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

### Receive your Annual Report electronically.

The Biota Holdings Limited Annual Reports (Concise Report and Combined Financial Statements) are also posted on the internet. Shareholders are encouraged to visit [www.biota.com.au](http://www.biota.com.au) to inspect the electronic version of the Annual Report.

# Biota Holdings Limited

ABN 28 006 479 081

**Year ended 30 June 2007**

**(Previous corresponding period: Year ended 30 June 2006)**

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## Results for announcement to the market

				\$'000
<b>Revenue</b> from ordinary activities <i>(Appendix 4E item 2.1)</i>	up	302%	To	55,830
<b>Profits</b> from ordinary activities after tax attributable to members <i>(Appendix 4E item 2.2)</i> <i>(Note: Loss in 2006)</i>	n/a	n/a	To	20,180
<b>Profits</b> for the period attributable to members <i>(Appendix 4E item 2.3)</i> <i>(Note: Loss in 2006)</i>	n/a	n/a	To	20,180

### Explanation of Revenue

*(Appendix 4E item 2.6)*

Refer to note 5 to the Financial Report for the year ended 30 June 2007 which follows this announcement.

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

*(Appendix 4E item 2.6)*

Refer to attached release entitled "Biota delivers profit after tax of \$20.2m".

### Dividends

*(Appendix 4E items 2.4 and 2.5)*

Biota Holdings Limited has not declared nor paid any dividends.

### Financial Statements

*(Appendix 4E items 3,4 and 5)*

Attached Financial Report.

*Amounts in the Preliminary Final Report have been rounded off to the nearest thousand dollars, unless otherwise stated.*

## Supplementary Information

### Additional dividend/distribution information

*(Appendix 4E item 6)*

No dividends or distributions have been declared or paid during or subsequent to the year ended 30 June 2007.

### Dividend/distribution reinvestment plans

*(Appendix 4E item 7)*

The company does not have dividend or distribution reinvestment plans.

### Retained earnings/accumulated losses

*(Appendix 4E item 8)*

Refer to note 22 to the Financial Report.

### NTA Backing

*(Appendix 4E item 9)*

	<b>2007</b>	<b>2006</b>
	<b>cents</b>	<b>cents</b>
Net tangible assets per share	39.1	26.2

### Controlled entities acquired or disposed of

*(Appendix 4E item 10)*

The company did not acquire any controlled entities during the financial year ended 30 June 2007. The company did close controlled entities no longer required. Refer also to note 28 to the Financial Report.

### Associates and joint venture entities

*(Appendix 4E item 11)*

Refer to note 28 to the Financial Report.

### Other significant information

*(Appendix 4E item 12)*

Refer to the attached release entitled "Biota delivers profit after tax of \$20.2m".

### Commentary on results

*(Appendix 4E item 14)*

Refer to attached release entitled "Biota delivers profit after tax of \$20.2m".

### Audit

*(Appendix 4E items 15 to 17)*

The audit of the Financial Report is progressing.

Damian Lismore  
Company Secretary  
9 August 2007

## **Financial Report**

**BIOTA HOLDINGS LIMITED ABN 28 006 479 081**  
**Financial report – 30 June 2007**

**Contents**

Financial report

Income statements

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Notes to financial statements

**Biota Holdings Limited**  
**Income statements**  
For the year ended 30 June 2007

	Notes	Consolidated		Parent entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenues from continuing operations	5	55,830	13,872	27,095	7,015
Other income	6	1,470	1,095	-	254
Research and development		(8,198)	(7,685)	-	-
Product development		(10,299)	(8,400)	-	-
Business development		(1,197)	(644)	-	-
Sub royalty	7	(4,864)	(741)	-	-
Corporate-Head Office		(3,867)	(4,265)	(31,313)	(18,235)
Corporate- Litigation	7	(10,426)	(4,397)	(10,426)	(4,384)
Finance cost	7	(618)	(141)	(1,179)	-
<b>Profit/(Loss) from before income tax</b>		17,831	(11,306)	(15,823)	(15,350)
Income tax credit	8	2,349	-	2,694	-
<b>Profit/(Loss) for the year</b>		20,180	(11,306)	(13,129)	(15,350)
<b>Profit/(Loss) attributable to members of Biota Holdings Limited</b>		20,180	(11,306)	(13,129)	(15,350)

**Earnings/(loss) per share from continuing operations attributable to the ordinary equity holders of the company:**

		Cents	Cents
Basic earnings/(loss) per share	31	11.2	(6.9)
Diluted earnings/(loss) per share	31	11.0	(6.9)

**Earnings/(loss) per share attributable to the ordinary equity holders of the company:**

		Cents	Cents
Basic earnings/(loss) per share	31	11.2	(6.9)
Diluted earnings/(loss) per share	31	11.0	(6.9)

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

**Biota Holdings Limited**  
**Balance sheets**  
As at 30 June 2007

	Notes	Consolidated		Parent Entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	9	62,156	46,183	24,972	43,033
Trade and other receivables	10	9,350	5,864	4,525	2,049
<b>Total current assets</b>		<b>71,506</b>	<b>52,047</b>	<b>29,497</b>	<b>45,082</b>
<b>Non-current assets</b>					
Receivables	11	-	-	-	-
Property, plant and equipment	12	5,152	5,512	245	72
Deferred tax assets	13	2,349	-	2,694	-
Intangible assets	14	13,447	-	-	-
<b>Total non-current assets</b>		<b>20,948</b>	<b>5,512</b>	<b>2,939</b>	<b>72</b>
<b>Total assets</b>		<b>92,454</b>	<b>57,559</b>	<b>32,436</b>	<b>45,154</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	15	6,004	4,034	2,170	1,358
Deferred revenue	16	6,457	6,011	-	4,485
Provisions	17	1,097	516	318	170
<b>Total current liabilities</b>		<b>13,558</b>	<b>10,561</b>	<b>2,488</b>	<b>6,013</b>
<b>Non-current liabilities</b>					
Deferred revenue	18	1,022	-	-	-
Provisions	20	6,339	100	3	1
<b>Total non-current liabilities</b>		<b>7,361</b>	<b>100</b>	<b>3</b>	<b>1</b>
<b>Total liabilities</b>		<b>20,919</b>	<b>10,661</b>	<b>2,491</b>	<b>6,014</b>
<b>Net assets</b>		<b>71,535</b>	<b>46,898</b>	<b>29,945</b>	<b>39,140</b>
<b>EQUITY</b>					
Contributed equity	21	161,671	157,974	161,671	157,974
Reserves	22a	636	(124)	636	399
Accumulated losses	22b	(90,772)	(110,952)	(132,362)	(119,233)
<b>Total equity</b>		<b>71,535</b>	<b>46,898</b>	<b>29,945</b>	<b>30,140</b>

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

**Biota Holdings Limited**  
**Statements of recognised income and expense**  
For the year ended 30 June 2007

	Notes	Consolidated		Parent entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Total equity at the beginning of the financial year</b>		46,898	26,036	39,140	22,303
<b>Net income recognised directly in equity</b>					
Repurchase of subsidiary options	22b	-	(19)	-	-
Realisation of Foreign Currency Translation Reserve on closure of US subsidiaries		523	-	-	-
Profit/(loss) for the year		20,180	(11,306)	(13,129)	(15,350)
<b>Total recognised income and expense for the year</b>		20,703	(11,325)	(13,129)	(15,350)
Total recognised income and expense for the year is attributable to:					
Members of Biota Holdings Limited		20,703	(11,325)	(13,129)	(15,350)
Contributions of equity		3,393	31,949	3,393	31,949
Transaction costs		-	(112)	-	(112)
Employee share options		541	350	541	350
<b>Total equity at the end of the financial year</b>		71,535	46,898	29,945	39,140

*The above statements recognised income and expense should be read in conjunction with the accompanying notes.*

**Biota Holdings Limited**  
**Cash flow statements**  
For the year ended 30 June 2007

	Notes	Consolidated		Parent entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
		Inflows / (outflows)		Inflows / (outflows)	
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of goods and services tax)		47,301	6,972	17,836	1,555
Payments to suppliers and employees (inclusive of goods and services tax)		(34,037)	(23,487)	(19,680)	(7,592)
Other revenue (up-front payment on collaborations)		5,053	6,728	-	6,728
Interest paid		-	-	-	-
Interest received		2,666	2,109	2,498	2,031
<b>Net cash (outflow) inflow from operating activities</b>	30	20,983	(7,677)	654	2,722
<b>Cash flows from investing activities</b>					
Loans to related parties		-	-	(19,860)	(14,619)
Payments for intangible assets	14	(5,510)	-	-	-
Proceeds from sale of plant and equipment		-	63	-	-
Payments for plant and equipment		(893)	(1,985)	(248)	(53)
<b>Net cash (outflow) from investing activities</b>		(6,403)	(1,922)	(20,108)	(14,672)
<b>Cash flows from financing activities</b>					
Repayments of interest bearing liabilities		-	(789)	-	-
Proceeds from issue of shares	21	1,393	31,949	1,393	31,949
Issue costs	21	-	(112)	-	(112)
Repurchase of subsidiary's options		-	(19)	-	-
<b>Net cash inflow from financing activities</b>		1,393	31,029	1,393	31,837
<b>Net increase in cash and cash equivalents</b>		15,973	21,430	(18,061)	19,887
<b>Cash and cash equivalents at the beginning of the year</b>		46,183	24,753	43,033	23,146
Exchange rate adjustments		-	-	-	-
<b>Cash and cash equivalents at the end of the year</b>	9	62,156	46,183	24,972	43,033

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 financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Biota Holdings Limited as an individual entity and 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 financial statements and notes of Biota Holdings Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

#### *Early adoption of standards*

The Group has elected to apply the following standards to the annual reporting period beginning 1 July 2006:

- Revised AASB 101 *Presentation of Financial Statements* (issued October 2006)

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the re-evaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### *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.

## **1 Summary of significant accounting policies (continued)**

### **(b) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Biota Holdings Limited ("company" or "parent entity") as at 30 June 2007 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

### **(c) Segment reporting**

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 and is subject to risks and returns that are different from those segments operating in other economic environments.

## **1 Summary of significant accounting policies (continued)**

### **(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.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

#### *(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.

## **1 Summary of significant accounting policies (continued)**

### **(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 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-imbusement 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 partnership income 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 expenses are incurred.

#### *(v) Interest*

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

### **(f) Government grants**

Grants from the government 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.

## **1 Summary of significant accounting policies (continued)**

### **(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 national 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, the 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 balance sheet 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.

## **1 Summary of significant accounting policies (continued)**

### **(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 (note 25). Finance leases are capitalised at the lease's inception at the lower of 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 charges. 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 is depreciated over the shorter of the asset's useful life and 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 purchase 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. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer note 1(q)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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.

## **1 Summary of significant accounting policies (continued)**

### **(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 within borrowings 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. Debts which are known to be uncollectible are written off. A provision 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 or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

## **1 Summary of significant accounting policies (continued)**

### **(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 balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 10 and 11).

#### *(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 balance sheet date.

#### ***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.

## **1 Summary of significant accounting policies (continued)**

### **(m) Investments and other financial assets (continued)**

#### ***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 balance sheet 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.

## **1 Summary of significant accounting policies (continued)**

### **(n) Derivatives**

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), or
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow 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.

## **1 Summary of significant accounting policies (continued)**

### **(n) Derivatives (continued)**

#### *(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) 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) Fair value estimation**

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

The fair value of financial instruments traded in active markets (such as publicly traded derivative, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future

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contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.



## **1 Summary of significant accounting policies (continued)**

### **(r) 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.

### **(s) 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 the anticipated 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.

### **(t) 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.

## **1 Summary of significant accounting policies (continued)**

### **(t) Employee benefits (continued)**

#### *(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 note 32.

The fair value of options granted 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 grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using the market value of the equity instruments granted.

The fair value of the options granted 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 balance sheet 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.

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 balance sheet date are discounted to present value.

### **(u) 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.

If the entity reacquires its own entity instruments, eg 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.

## **1 Summary of significant accounting policies (continued)**

### **(v) 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.

### **(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, 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.

#### *(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 shares assumed to have been issued for no consideration in relation to dilutive 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 expenses.

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 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.

## **1 Summary of significant accounting policies (continued)**

### **(aa) New accounting standards and UIG interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

*(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

*(ii) AASB-I 10 Interim Financial Reporting and Impairment*

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

## **2 Financial risk management**

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate 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.

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

Major risks and the mitigation processes are outlined below:

### **(a) Market risk**

*(i) Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk arising from currency exposures, particularly the US dollar. 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.

*(ii) Fair value interest rate risk* Refer to (d) below.

## **2 Financial risk management (continued)**

### **(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. The Group has policies that limit the amount of credit exposure to any one financial institution.

### **(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) Cash flow and fair value interest rate risk**

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

## **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, vary from 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(q), the group predominantly expenses all research and development 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 up front 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 licencing or sale transactions, as these cash flows cannot be estimated with sufficient reliability nor can the probability of their occurrence.

As disclosed in notes 14 and 20, the Group entered into arrangements with CSIRO and Victorian College of Pharmacy during the year. The carrying values of these assets are supported by anticipated future revenues arising from Relenza royalties. The transaction offers the third parties the opportunity of earning additional payments should Relenza sales exceed specified amounts. Given the improved performance of Relenza sales, it is probable that these amounts will be payable in future years and provision has been made on a present value basis consistent with the Group accounting policy at Note 1(s).

### **3 Critical account estimates and judgements (continued)**

#### **(a) Critical accounting estimates and assumptions (continued)**

##### *(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 based on average share price over the past three months.

##### *(iii) Recoverability of Deferred tax assets*

As disclosed in notes 8 and 13, the Group has brought to account \$3,600,000 in relation to previously unrecognised available tax losses. Management have estimated the amount for which there are sufficient taxable temporary differences (\$1,251,352) and where there is convincing evidence that sufficient taxable profit will be available. Given the industry the Group operates in and the volatility of revenue, management have concluded that in meeting the "convincing evidence" requirements of the standard, it is only appropriate to consider the next 12 months.

#### **(b) Critical judgements in applying the entity's accounting policies**

The Group entered into a Research & Collaboration licence with the Glaxo Group in 1990 and subsequent variations in relation to the commercialisation of zanamivir, subsequently marketed by GSK as Relenza. The Group has issued a writ in the Victorian Supreme Court claiming breaches of contract and fiduciary duties for failing to promote and support Relenza. No provision has been made for potential amounts payable or receivable (refer Note 26).

#### 4 Segment information

The Group has one business segment, being drug discovery and clinical development of antivirals. The Group operates predominantly in one geographical segment being Australia.

#### 5 Revenue

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>From continuing operations</b>				
Royalty income	39,789	5,189	20,287	2,594
Diagnostic profit share	538	1,251	-	-
Partnering revenue	5,726	2,243	4,486	2,243
Research revenues	7,270	2,926	-	-
Interest revenue	2,507	2,256	2,322	2,178
Other revenue	-	7	-	-
<b>Revenue from continuing operations</b>	<b>55,830</b>	<b>13,872</b>	<b>27,095</b>	<b>7,015</b>

#### 6 Other income

Grants-Government (note a)	58	368	-	-
Grants-Other Governments (note a)	1,412	727	-	-
Foreign Exchange gains (note b)	-	-	-	254
<b>Total Other Income</b>	<b>1,470</b>	<b>1,095</b>	<b>-</b>	<b>254</b>

##### (a) Grants-Government

AusIndustry research grants of \$58,000 (2006:\$368,000) are recognised as other income by the Group. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

The National Institutes of Health has awarded the Group US\$14.1m to complete research on the development of the LANI programs, including three Phase I studies. Amounts of \$1,412,000 (2006:\$727,000) 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) Net foreign exchange gains

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Net foreign exchange gains included in other income for the year	-	-	-	254

## 7 Expenses

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Profit/(loss) before income tax includes the following specific expenses:</b>				
Depreciation				
- Plant and equipment	654	616	75	38
- Leasehold improvements	574	370	-	-
Total depreciation	1,228	986	75	38
Amortisation of intangible assets (note 14)	317	-	-	-
Net Loss on disposal				
Loss on disposal of plant and equipment	29	129	-	-
Rental expense relating to operating leases				
- Minimum lease payments	328	362	7	7
Total rental expense relating to operating leases	328	362	7	7
Employee benefits expense	6,808	5,602	1,942	1,764
Superannuation expense	712	469	168	185
Research and development expenses	8,198	7,685	-	-
Litigation costs (note 26)	10,426	4,397	10,426	4,384
Provision for intercompany loan	-	-	21,860	14,619
Finance costs				
- Non cash realisation of Foreign Currency Translation Reserve on closure of US entities (note 22)	523	-	-	-
- Interest on provisions	47	-	-	-
- Net foreign exchange loss	48	141	1,179	-
Total finance costs	618	141	1,179	-
Sub royalty (note 14)	4,864	741	-	-
Amounts payable to third parties in relation to royalties received from Relenza sales				

## 8 Income tax credit

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

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax credit</b>				
Current tax	-	-	-	-
Deferred tax	2,349	-	2,694	-
	<u>2,349</u>	<u>-</u>	<u>2,694</u>	<u>-</u>
Income tax expense is attributable to:				
Profit from continuing operations	2,349	-	2,694	-
Profit from discontinued operations	-	-	-	-
Aggregate income tax credit	<u>2,349</u>	<u>-</u>	<u>2,694</u>	<u>-</u>
Deferred income tax (expense) revenue included in income tax comprises:				
Increase in deferred tax assets (note 13)	2,349	-	2,694	-
	<u>2,349</u>	<u>-</u>	<u>2,694</u>	<u>-</u>
<b>(b) Numerical reconciliation of income tax credit to prima facie tax payable</b>				
Profit/(Loss) from continuing operations before income tax expense	17,831	(11,306)	(15,823)	(15,350)
Tax at the Australian tax rate of 30%	(5,349)	3,392	4,747	4,605
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	(162)	(105)	(52)	(105)
Non-taxable amortisation	(21)	-	-	-
Non-taxable income	474	-	-	-
Research and Development claim	1,274	995	-	-
Capital losses on loan forgiveness	-	-	1,711	-
Sundry items	11	(84)	51	(83)
	<u>(3,773)</u>	<u>4,198</u>	<u>6,457</u>	<u>4,417</u>
Difference in overseas tax rates	-	151	-	-
Initial recognition of deferred tax assets and deferred tax liabilities	2,522	-	(7,363)	-
Tax losses not recognised	-	(4,349)	-	(4,417)
Previously unrecognised tax losses now assessed as recoverable	3,600	-	3,600	-
Income tax credit	<u>2,349</u>	<u>-</u>	<u>2,694</u>	<u>-</u>

**8 Income tax credit (continued)**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(d) Unrecognised temporary differences and tax losses</b>				
Unrecognised temporary differences and tax losses for which no deferred tax asset has been recognised	57,961	82,217	22,657	60,971
Tax effect of unrecognised temporary differences and tax losses for which no deferred tax asset has been recognised	17,388	27,469	6,797	18,291

At 30 June 2007, all of the amounts not brought to account arise from tax losses incurred in previous years.

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2007 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.

**(e) Tax consolidation legislation**

Biota Holdings Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Biota Holdings Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Biota Holdings Limited for any current tax payable assumed and are compensated by Biota Holdings Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Biota Holdings Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

## 9 Current assets – Cash and cash equivalents

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash</b>				
Cash and at bank and in hand	39,334	5,335	2,150	2,185
Deposits at call	22,822	40,848	22,822	40,848
	<u>62,156</u>	<u>46,183</u>	<u>24,972</u>	<u>43,033</u>

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

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

Balance per statements of cash flows	62,156	46,183	24,972	43,033
--------------------------------------	--------	--------	--------	--------

### (b) Cash at bank and on hand

These balances bear interest rates between (5.28% and 6.00%) and are generally available to meet cheques on issue.

### (c) Deposits at call

The deposits are bearing interest rates between 6.41% and 6.60% (2006: 5.71% and 6.00%). These deposits have an average maturity of 30/90 days.

## 10 Current assets – Trade and other receivables

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	9,105	5,109	3,955	1,510
Other receivables	-	159	366	127
Deposits paid	1	10	1	-
Accrued interest	121	281	98	281
Prepayments	123	305	105	131
	<u>9,350</u>	<u>5,864</u>	<u>4,525</u>	<u>2,049</u>

### (a) Bad and doubtful trade receivables

The Group has recognised a loss of \$nil (2006: \$nil) in respect of bad and doubtful trade receivables during the year ended 30 June 2007.

### (b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

### (c) Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables (note 11).

## 11 Non-current assets – Receivables

	<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Loans to related entities	87,093	80,399
Provision for doubtful debts	(87,093)	(80,399)
	-	-

### (a) Fair values

The fair values and carrying values of non-current receivables of the Group are as per the Parent entity.

### (b) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables:

	<b>Floating interest rate</b>	<b>1 year or less</b>	<b>Fixed interest maturing in:</b>					<b>Non- interest bearing</b>	<b>Total</b>
			<b>Over 1 to 2 years</b>	<b>Over 2 to 3 years</b>	<b>Over 3 to 4 years</b>	<b>Over 4 to 5 years</b>	<b>Over 5 years</b>		
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	
<b>Financial assets</b>									
Cash									
2007	39,334	22,822	-	-	-	-	-	-	62,156
2006	5,335	40,848	-	-	-	-	-	-	46,183
Debtors									
2007	-	-	-	-	-	-	-	9,350	9,350
2006	-	-	-	-	-	-	-	5,864	5,864
Total									
2007	39,334	22,822	-	-	-	-	-	9,350	71,506
2006	5,335	40,848	-	-	-	-	-	5,864	52,047
Weighted average interest rate 2007									
	5.87	6.45	-	-	-	-	-	-	
Weighted average interest rate 2006									
	4.52	5.86	-	-	-	-	-	-	

### (c) Credit risk

Due to the nature of the pharmaceutical industry, the Group will tend to have relationships with a few large companies. The Group has policies in place to ensure that sales and services are made to customers with an appropriate credit history and exposures are restricted as far as possible through regular invoicing and cash collection.

## 12 Non-current assets – Property, plant and equipment

	Plant & equipmen t	Plant & equipment in the course of construction	Leasehold improvements	Leased plant, equipment & leased improvements	Total
<b>Consolidated</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>At 1 July 2005</b>					
Cost or fair value	3,880	-	3,683	894	8,457
Accumulated depreciation	(2,687)	-	(354)	(714)	(3,755)
Net book amount	1,193	-	3,329	180	4,702
<b>Year ended 30 June 2006</b>					
Opening net book amount	1,193	-	3,329	180	4,702
Additions	645	-	1,177	163	1,985
Disposals	(85)	-	-	(107)	(192)
Depreciation charge	(474)	-	(371)	(141)	(986)
Exchange differences	1	-	-	2	3
Closing net book amount	1,280	-	4,135	97	5,512
<b>As at 30 June 2006</b>					
Cost or fair value	4,420	-	4,860	843	10,123
Accumulated depreciation	(3,140)	-	(725)	(746)	(4,611)
Net book amount	1,280	-	4,135	97	5,512
<b>Year ended 30 June 2007</b>					
Opening net book amount	1,280	-	4,135	97	5,512
Additions	726	-	167	-	893
Disposal	-	-	-	(31)	(31)
Depreciation charge	(583)	-	(574)	(71)	(1,228)
Exchange differences	1	-	-	5	6
Closing net book amount	1,424	-	3,728	-	5,152
<b>At 30 June 2007</b>					
Cost of fair value	4,871	-	5,026	-	9,897
Accumulated depreciation	(3,447)	-	(1,298)	-	(4,745)
Net book amount	1,424	-	3,728	-	5,152

**12 Non-current assets – Property, plant and equipment (continued)**

<b>Parent entity</b>	<b>Plant &amp; equipment</b>	<b>Plant &amp; equipment in the course of construction</b>	<b>Leasehold improvements</b>	<b>Leased plant, equipment &amp; leased improvements</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>At 1 July 2005</b>					
Cost of fair value	358	-	94	-	452
Accumulated depreciation	(302)	-	(94)	-	(396)
Net book amount	56	-	-	-	56
<b>Year ended 30 June 2006</b>					
Opening net book amount	56	-	-	-	56
Additions	54	-	-	-	54
Disposals	-	-	-	-	-
Depreciation charge	(38)	-	-	-	(38)
Closing net book amount	72	-	-	-	72
<b>As at 30 June 2006</b>					
Cost or fair value	412	-	94	-	506
Accumulated depreciation	(340)	-	(94)	-	(434)
Net book amount	72	-	-	-	72
<b>Year ended 30 June 2007</b>					
Opening net book amount	72	-	-	-	72
Additions	248	-	-	-	248
Disposals	-	-	-	-	-
Depreciation charge	(75)	-	-	-	(75)
Closing net book amount	245	-	-	-	245
<b>At 30 June 2007</b>					
Cost or fair value	660	-	-	-	660
Accumulated depreciation	(415)	-	-	-	(415)
Net book amount	245	-	-	-	245

**13 Non-Current assets – Deferred tax assets**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>The balance comprises temporary differences attributable to:</b>				
Tax losses	3,600	-	3,600	-
Employee benefits	341	-	96	-
Property plant & equipment	561	-	4	-
Accruals	354	-	212	-
Deferred revenue	262	-	-	-
Total deferred tax assets	5,118	-	3,912	-
Set-off of deferred tax liabilities pursuant to set-off provisions	2,769	-	1,218	-
Net deferred tax assets	2,349	-	2,694	-

**14 Non-Current assets – Intangible assets**

	<b>Consolidated 2007 \$'000</b>	<b>Parent entity 2007 \$'000</b>
<b>Royalty Prepayments</b>		
<b>At 1 July 2005</b>		
Cost	-	-
Accumulated amortisation and impairment	-	-
Net book amount	-	-
<b>Year ended 30 June 2006</b>		
Opening net book amount	-	-
Additions - acquisition	-	-
Amortisation charge	-	-
Closing net book amount	-	-
<b>As at 30 June 2006</b>		
Cost	-	-
Accumulated amortisation	-	-
Net book amount	-	-
<b>Year ended 30 June 2007</b>		
Opening net book amount	-	-
Additions	13,764	-
Amortisation charge	(317)	-
Closing net book amount	13,447	-
<b>At 30 June 2007</b>		
Cost	13,764	-
Accumulated amortisation	(317)	-
Net book amount	13,447	-

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 amount. 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, which is currently 7 years.

Reconciliation of payments for intangible assets

	<b>Note</b>	<b>\$'000</b>
Amount capitalised		13,764
Shares issued	21	(2,000)
Provision – amounts payable at present value	20	(6,254)
Net cash outflow in cash flow statement		<u>5,510</u>
Gross payments made		10,374
Sub royalties expensed, no longer required to be paid	7	(4,864)
Net cash outflow in cash flow statement		<u>5,510</u>

**15 Current liabilities – Trade and other payables**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current (unsecured)</b>				
Trade payables	2,791	1,122	128	171
Other payables	3,213	2,912	2,042	1,187
	<u>6,004</u>	<u>4,034</u>	<u>2,170</u>	<u>1,358</u>

**16 Current liabilities – Deferred revenue**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Deferred revenue	<u>6,457</u>	<u>6,011</u>	-	<u>4,485</u>

Deferred revenue represents:

- (i) Amounts received in advance from 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.

**17 Current liabilities – Provisions**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	<u>1,097</u>	<u>516</u>	<u>318</u>	<u>170</u>

**18 Non-current liabilities – Deferred revenue**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Deferred revenue	<u>1,022</u>	<u>-</u>	<u>-</u>	<u>-</u>

Deferred revenue represents:

- (iii) Amounts received in advance from grant authorities which will be released to revenue as expenses occur; and
- (iv) Upfront receipts from collaborations which will be released to profit over the research collaboration term.

**19 Non-current liabilities – Deferred tax liabilities**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>The balance comprises temporary differences attributable to:</b>				
Receivables	2,769	-	1,218	-

**20 Non-current liabilities – Provisions**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Employee benefits – long service leave	38	100	3	1
Contingent consideration	6,301	-	-	-
	<u>6,339</u>	<u>100</u>	<u>3</u>	<u>1</u>

**(a) Contingent Consideration**

The Group entered into arrangements during the year where the parties agreed to exchange variable royalty payments for use of intellectual property, for a fixed fee. The transaction also offers the third parties the opportunity of earning additional payments should Relenza sales exceed specified amounts. Provision has been made for these payments on a present value basis consistent with the Group accounting policy at note 1(s).

**(b) Movements in provisions**

	<b>Consolidated</b>
	<b>2007</b>
	<b>\$'000</b>
<i>Contingent Consideration</i>	
Carrying amount at start of year	-
Provision raised on acquisition of assets	6,254
Interest expense on unwinding of discount	47
Carrying amount at end of year	<u>6,301</u>

## 21 Contributed equity

	Notes	Consolidated and Parent entity		Consolidated and Parent entity	
		2007 Shares '000	2006 Shares '000	2007 \$'000	2006 \$'000
<b>(a) Share capital</b>					
Ordinary shares					
Fully paid	(b),(c)	182,711	179,281	161,671	157,974

### (b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$'000
1 July 2005	Opening balance	136,551,431		125,954
21 July 2005	Exercise of options	327,906	\$0.56	184
14 October 2005	Exercise of options	230,200	\$0.58	133
25 October 2005	Exercise of options	160,000	\$0.58	93
2 November 2005	Share placement	40,862,232	\$0.76	31,055
8 November 2005	Exercises of options	100,000	\$0.58	58
21 November 2005	Share placement	7,704	\$0.76	5
21 November 2005	Exercise of options	8,000	\$0.58	5
9 December 2005	Exercise of options	333,333	\$0.58	193
14 February 2006	Exercise of options	500,000	\$0.58	290
16 June 2006	Exercise of options	200,000	\$0.58	116
	Less: Transaction costs on share issue			(112)
30 June 2006	Balance	179,280,806		157,974
9 August 2006	Exercise of options	592,054	\$0.56-\$1.71	304
31 October 2006	Exercise of options	8,000	\$0.58	5
29 November 2006	Exercise of options	32,000	\$0.58	19
14 December 2006	Exercise of options	39,000	\$0.58	23
29 March 2007	Exercise of options	419,800	\$0.58	243
4 May 2007	Share issue	1,173,021	\$1.705	2,000
7 June 2007	Exercise of options	1,166,667	\$0.58-\$1.44	1,103
30 June 2007	Closing balance	182,711,348		161,671

### (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 note 32.

### (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 placement

On 3 May 2007 the company executed an agreement with CSIRO. Under the terms of the agreement CSIRO received an initial share placement of \$2 million in shares based on a Volume Weighted Average Price over the five days proceeding the signing of the agreement.

## 22 Reserves and retained profits

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(a) Reserves</b>				
Foreign currency translation reserve	-	(523)	-	-
Share-based payments reserve	636	399	636	399
	636	(124)	636	399
<b>Movements</b>				
<i>Foreign currency translation reserve</i>				
Balance 1 July	(523)	(523)	-	-
Expensed on closure of US entities	523	-	-	-
Balance 30 June	-	(523)	-	-
<i>Share-based payments reserve</i>				
Balance 1 July	399	232	399	232
Options expense	541	351	541	351
Transfer to share capital (options exercised)	(304)	(184)	(304)	(184)
Balance 30 June	636	399	636	399
<b>(b) Accumulated losses</b>				
Balance 1 July	(110,952)	(99,627)	(119,233)	(103,883)
Repurchased options		(19)		-
Net profit/(loss) attributable to the members of Biota Holdings Limited	20,180	(11,306)	(13,129)	(15,350)
Balance 30 June	(90,772)	(110,952)	(132,362)	(119,233)

### (c) Nature and purpose of reserves

#### (i) Foreign currency translation reserve

Exchange differences arising on translations of controlled entities whose functional currency is different to that of the parent entity are taken to the foreign currency translation reserve as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

On 22 June 2007, the US subsidiaries of Biota Holdings Limited were deregistered with the foreign currency translation reserve being a non cash realisation in the income statement.

#### (ii) Share-based payment reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

## 23 Dividends

Neither the Company nor any of its controlled entities paid any dividends during the current or previous year and there is no dividend proposed to be paid in relation to the year ended 30 June 2007 (2006 dividends proposed: Nil). 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 2007, are \$494,366 (2006: \$494,366).

## 24 Key management personnel disclosures

### (a) Directors

The following persons were directors of Biota Holdings Limited during the financial year:

(i) *Chairman – Non-executive director*

John Grant

(ii) *Executive director*

Peter Cook, Managing Director

(iii) *Non-executive directors*

Paul Bell (from 9 September 2006)

Barbara Gibson

Ian Gust

Grant Latta

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly during the financial year:

<b>Name</b>	<b>Position</b>	<b>Employer</b>
Damian Lismore	Chief Financial Officer	Biota Holdings Limited
Simon Tucker	Vice President, Research	Biota Scientific Management Pty Ltd
Jane Ryan	Vice President, Product Development	Biota Scientific Management Pty Ltd
Leigh Farrell	Vice President, Business Development	Biota Scientific Management Pty Ltd
John Lambert	Executive Director, Drug Discovery	Biota Scientific Management Pty Ltd

All of the above persons were also key management persons during the year ended 30 June 2006, except for Leigh Farrell who commenced employment with the Group on 24 April 2006.

### (c) Key management personnel compensation

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,896,937	1,618,161	1,023,912	933,888
Post-employment benefits	264,995	99,500	130,650	45,716
Termination benefits	-	229,684	-	-
Long-term benefits	15,029	14,562	-	-
Share-based payments	347,504	202,079	149,598	41,052
	<u>2,524,465</u>	<u>2,163,986</u>	<u>1,304,160</u>	<u>1,310,339</u>

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the Remuneration report.

## 24 Key management personnel disclosures (continued)

### (d) Equity instrument disclosures relating to key management personnel

#### (i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration report.

#### (ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Biota Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

Name	Year	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Directors of Biota Holdings Limited</b>							
Barbara Gibson	2007	75,050	-	-	-	75,050	75,050
	2006	75,050	-	-	-	75,050	75,050
Peter Cook	2007	-	72,314	-	-	72,314	36,157
	2006	-	-	-	-	-	-
Peter Molloy (a)	2007	1,166,667	-	1,166,667	-	-	-
	2006	2,000,000	-	833,333	-	1,166,667	1,166,667
<b>Other key management personnel of the Group</b>							
Damian Lismore	2007	41,667	71,653	20,834	-	92,486	56,660
	2006	-	41,667	-	-	41,667	20,834
Simon Tucker	2007	410,944	62,971	327,986	-	145,929	114,444
	2006	339,657	165,916	94,629	-	410,944	327,986
Jane Ryan	2007	255,707	66,664	171,589	-	150,782	117,450
	2006	324,942	168,236	237,471	-	255,707	171,591
John Lambert	2007	178,260	26,624	140,734	-	64,150	50,838
	2006	192,414	75,053	89,207	-	178,260	140,734
Leigh Farrell	2007	-	13,836	-	-	13,836	6,918
	2006	-	-	-	-	-	-

(a) Resigned on 9 December 2005

## 24 Key management personnel disclosures (continued)

No options are vested and unexercisable at the end of the year.

### (iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Biota Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Name	Year	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Biota Holdings Limited</b>					
<b>Ordinary shares</b>					
John Grant	2007	507,551	-	100,000	607,551
	2006	400,000	-	107,551	507,551
Barbara Gibson	2007	40,820	-	50,000	90,820
	2006	34,400	-	6,420	40,820
Ian Gust	2007	219,536	-	50,000	269,536
	2006	193,116	-	26,420	219,536
Grant Latta	2007	-	-	160,000	160,000
	2006	-	-	-	-
Peter Cook	2007	35,000	-	106,200	141,200
	2006	-	-	35,000	35,000
Paul Bell	2007	29,302	-	20,698	50,000
	2006	-	-	-	-
Andrew Tyndale (a)	2007	-	-	-	-
	2006	*5,625,000	-	*(5,625,000)	-
Peter Molloy (b)	2007	-	-	-	-
	2006	30,616	833,333	(863,949)	-
<b>Other key management personnel of the Group</b>					
<b>Ordinary shares</b>					
Damian Lismore	2007	12,000	20,834	25,000	57,834
	2006	-	-	12,000	12,000
Simon Tucker	2007	68,481	327,986	(40,000)	356,467
	2006	-	94,629	(26,148)	68,481
Jane Ryan	2007	163,891	171,589	-	335,480
	2006	-	237,471	(73,580)	163,891
John Lambert	2007	75,627	140,734	-	216,361
	2006	-	89,207	(13,580)	75,627
Leigh Farrell	2007	-	-	4,550	4,550
	2006	-	-	-	-

(a) Retired as a director on 28 October 2005.

Shares were held by an associated entity of Mr Tyndale's employer. The change in the year reflects an in species distribution of the shares by that entity.

(b) Resigned on 9 December 2005.

## 24 Key management personnel disclosures (continued)

### (e) Loans to key management personnel

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

## 25 Remuneration of auditors

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

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>(a) Assurance services</b>				
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	125,750	103,500	125,750	103,500
Audit of grant returns	30,000	10,950	30,000	-
IFRS accounting services	-	20,000	-	20,000
Total audit and other assurance services	155,750	134,450	155,750	123,500
Taxation	-	-	-	-
Total	155,750	134,450	155,750	123,500

No further amounts were paid or payable to any related practice of PricewaterhouseCoopers.

It is the Group's policy to employ its auditor on assignments additional to their statutory audit duties only where their expertise and experience with the Group are important. Assignments are otherwise awarded on a competitive basis.

## 26 Contingent assets and contingent liabilities

The parent entity and consolidated entity had contingent assets and contingent liabilities at 30 June 2007 in respect of the legal process underway with the GlaxoSmithKline Group.

A writ has been issued in the Victorian Supreme Court claiming breaches of contract and fiduciary duties by the GlaxoSmithKline Group for failing to promote and support Relenza. The writ seeks unspecified damages for lost royalties to date, as well as future losses through the life of the product's patents. The claim has not been recognised as a receivable at 30 June 2007 as the damages arising from a successful action cannot be reliably measured at this stage. In the event that this legal action is unsuccessful, costs may be awarded against the Company. The likelihood and extent of these costs cannot be reliably measured at this stage.

The Company has entered into commercially sensitive contractual arrangements with external parties in regard to the provision of legal and consulting services associated with this litigation. These arrangements could potentially give rise to a future liability under certain circumstances. As at 30 June 2007, this potential liability is \$17.4m and should be regarded as a risk sharing arrangement by the Company's advisers. This potential liability will increase as the legal process evolves but would only become due and payable where a resolution, or a Court award, is in excess of the total amount

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payable. Directors are of the opinion that no significant liability will arise from these arrangements should the legal action be unsuccessful.

## 27 Commitments

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Operating lease commitments</i>				
Total lease expenditure representing non-cancellable operating leases contracted for at balance date but not recognised in the financial statements, payable:				
- No later than one year	237	245	-	-
- Later than one, not later than two years	245	237	-	-
- Later than two years, not later than five years	64	310	-	-
	546	792	-	-

A subsidiary of the Company entered into a five year lease in 2003 for a property in Notting Hill, Victoria, and has an option for two further five year periods.

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Research commitments</b>				
The Company and its controlled entities have entered into agreements with certain organisations for ongoing research and clinical trials. Under these agreements the Company and its controlled entities are committed to providing funds over future periods, payable:				
- Within one year	5,319	398	-	-
- Later than one year but not later than two years	-	-	-	-
- Later than two years but not later than five years	-	-	-	-
	5,319	398	-	-

### **Remuneration commitments**

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

- Within one year	-	-	-	-
- Later than one year but not later than two years	-	-	-	-
	-	-	-	-

## 28 Related party transactions

### (a) Directors and key management personnel

Disclosures relating to directors and key management personnel are set out in note 24.

### (b) Wholly-owned Group

Interest held in the controlled entities is disclosed in note 28(d) to the statements.

Loans receivable from controlled entities are disclosed in note 11 to the statements.

Transactions between Biota Holdings Limited and related parties in the wholly-owned Group during the years ended 30 June 2007 and 30 June 2006 consisted of amounts advanced by Biota Holdings Limited.

Aggregate amounts receivable from entities in the wholly-owned Group at balance date:

	<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Non-current receivables (loans)	87,092,621	80,399,460
Provision for doubtful debts	(87,092,621 )	(80,399,460 )

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

	<b>\$</b>	<b>\$</b>
<i>Loans to subsidiaries</i>		
Beginning of the year	80,399,460	65,779,889
Loans advanced	21,860,893	14,619,571
Loans forgiven against provision	(15,167,732 )	-
	)	
End of the year	87,092,621	80,399,460

### (c) Controlling entity

The ultimate controlling entity is Biota Holdings Limited.

### (d) Investments in controlled entities

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

<b>Name of entity</b>	<b>Country of incorporation</b>	<b>Class of shares</b>	<b>Equity holding and voting power</b>	
			<b>2007</b>	<b>2006</b>
			<b>%</b>	<b>%</b>
Biota Scientific Management Pty Ltd	Australia	Ordinary	100	100
Biota Investments Pty Ltd	Australia	Ordinary	100	100
Biota Respiratory Research Pty Ltd	Australia	Ordinary	100	100
Comlabs Pty Ltd*	Australia	Ordinary	-	100
Biota Research Pty Ltd*	Australia	Ordinary	-	100
Biota Diabetes Research Pty Ltd*	Australia	Ordinary	-	100
Biota Cancer Research Pty Ltd*	Australia	Ordinary	-	100
Biota Cancer Research No 2 Pty Ltd*	Australia	Ordinary	-	100
Declan Investments Pty Ltd*	Australia	Ordinary	-	100
Declan Management Pty Ltd*	Australia	Ordinary	-	100
The BSM Unit Trust*	Australia	Ordinary	-	100
Biota (USA) Limited*	USA	Ordinary	-	100
Biota, Inc.*	USA	Ordinary	-	100

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NuMAX Pharmaceuticals, Inc.*	USA	Ordinary	-	100
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\* These entities have been closed and deregistered during the year.

## 29 Events occurring after reporting date

On 17 July 2007, the Group announced that its RSV program, that was licensed to MedImmune Inc. in December 2005, had entered Phase I clinical trials. Under the licence agreement an amount of US\$3 million is now receivable by the Group. Apart from this matter, no other matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years,
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

## 30 Reconciliation of profit/(loss) after income tax to net cash flows from operating activities

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flow information</b>				
Profit/(loss) for the year	20,180	(11,306)	(13,129)	(15,350)
Depreciation and amortisation	1,544	986	75	38
Provision for doubtful debts	-	-	21,860	14,619
Loss on disposal of plant and equipment	29	192	-	-
Net exchange difference	566	99	-	-
Share based payments	541	350	541	350
<b>Changes in assets and liabilities</b>				
(Increase) in trade debtors and other debtors	(3,485)	(4,892)	(2,476)	(1,686)
(Increase) in deferred tax asset	(2,349)	-	(2,694)	-
Increase/(decrease) in trade creditors and other liabilities	3,438	6,834	(3,525)	4,751
Increase in provisions	519	60	2	-
<b>Net cash inflow/(outflow) from operating activities</b>	<b>20,983</b>	<b>(7,677)</b>	<b>654</b>	<b>2,722</b>

**31 Earnings per share**

**(a) Basic earnings per share**

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>Cents</b>	<b>Cents</b>
Profit/(loss) from continuing operations attributable to the ordinary equity holders of company	11.2	(6.9)
Profit/(loss) from discontinued operations	-	-
Profit/(loss) attributable to the ordinary equity holders of the company	11.2	(6.9)

**(b) Diluted earnings per share**

Profit/(loss) from continuing operations attributable to the ordinary equity holders of the company	11.0	(6.9)
Profit/(loss) from discontinued operations	-	-
Profit/(loss) attributable to the ordinary equity holders of the company	11.0	(6.9)

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

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Net Profit/(loss) used in calculating basic earnings per share	20,180	(11,306)
Net Profit/(loss) used in calculating diluted earnings per share	20,180	(11,306)

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

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares on issue used in calculation of basic profit/(loss) per share	180,216,862	164,354,911
Weighted average number of ordinary shares on issue used in calculation of diluted profit/(loss) per share	181,791,158	164,354,911

**(e) Information concerning the classification of securities**

*(i) Options*

Options granted to directors and employees under the Biota Holdings Limited ESOP No2, BEOP, NEDSOP and executive share option plans are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Full details relating to options are set out in notes 22 and 32.

## 32 Share-based payments

Details on current and former option plans are included at Sections A and D of the Remuneration Report.

Set out below are summaries of options granted under the plan:

### Consolidated and parent entity – 2007

Grant Date	Expiry Date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
6 Dec 2000	7 Dec 2008	\$4.44	75,050	-	-	-	75,050	75,050
27 Nov 2001	28 Nov 2006	\$0.58	36,000	-	36,000	-	-	-
28 Mar 2002	29 Mar 2007	\$0.58	462,800	-	462,800	-	-	-
15 Jul 2002	15 Jul 2007	\$0.58	500,000	-	500,000	-	-	-
15 Jul 2002	15 Jul 2007	\$1.00	333,333	-	333,333	-	-	-
15 Jul 2002	15 Jul 2007	\$1.44	333,334	-	333,334	-	-	-
3 Sept 2002	3 Sept 2007	\$0.58	10,000	-	-	-	10,000	10,000
1 Jul 2004	30 Jun 2009	-	255,262	-	175,823	79,439	-	-
1 Jul 2005	30 Jun 2010	-	775,786	-	387,897	5,130	382,759	382,759
9 Dec 2005	30 Jun 2010	-	41,667	-	20,834	-	20,833	20,833
2 Mar 2006	30 Jun 2010	-	15,000	-	7,500	1,000	6,500	6,500
1 Jul 2006	30 Jun 2011	-	-	488,271	-	9,452	478,819	239,415
<b>Total</b>			<b>2,838,232</b>	<b>488,271</b>	<b>2,257,721</b>	<b>95,021</b>	<b>973,961</b>	<b>734,557</b>
Weighted average exercise price			\$0.61	-	\$0.62	\$0.00	\$0.35	\$0.46

### 32 Share-based payments (continued)

#### Consolidated and parent entity – 2006

Grant Date	Expiry Date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
6 Dec 2000	7 Dec 2008	\$4.44	75,050	-	-	-	75,050	75,050
27 Nov 2001	28 Nov 2006	\$0.58	324,700	-	288,700	-	36,000	36,000
28 Mar 2002	29 Mar 2007	\$0.58	862,300	-	399,500	-	462,800	462,800
15 Jul 2002	15 Jul 2007	\$0.58	1,000,000	-	500,000	-	500,000	500,000
15 Jul 2002	15 Jul 2007	\$0.58	333,333	-	333,333	-	-	-
15 Jul 2002	15 Jul 2007	\$1.00	333,333	-	-	-	333,333	333,333
15 Jul 2002	15 Jul 2007	\$1.44	333,334	-	-	-	333,334	333,334
3 Sep 2002	4 Sep 2007	\$0.58	20,000	-	10,000	-	10,000	10,000
1 Oct 2002	2 Oct 2007	\$0.58	250,000	-	-	250,000	-	-
1 Jul 2004	30 Jun 2009	-	583,168	-	327,906	-	255,262	255,262
1 Jul 2005	30 Jun 2010	-	-	775,786	-	-	775,786	387,893
9 Dec 2005	30 Jun 2010	-	-	41,667	-	-	41,667	20,834
2 Mar 2006	30 Jun 2010	-	-	15,000	-	-	15,000	7,500
Total			4,115,218	832,453	1,859,439	250,000	2,838,232	2,422,006
Weighted average exercise price			\$0.67	-	\$0.48	\$0.58	\$0.61	\$0.71

Options forfeited during the period related to resignation of employees.

The weighted average share price at the date of exercise of options during the year ended 30 June 2007 was \$1.55 (2006: \$1.42).

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.35 years (2006: 2.07 years).

#### *Fair value of options granted*

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was \$1.86 cents per option in order of grant date (2006: \$0.42, \$1.21, \$1.44 and \$1.71 cents). The fair value at grant date is determined by the closing price on the Australian Securities Exchange.

### 32 Share-based payments (continued)

#### (b) Expense arising from share-based payment transactions

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

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Options issued under Biota Employee Option Plan	541,329	350,031	541,329	350,031
	541,329	350,031	541,329	350,031

### 33 Deed of Cross Guarantee

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

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

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

Set out below is a consolidated income statement and a summary of movements in the consolidated retained profits for the year ended 30 June 2007 of the Closed Group consisting of Biota Holdings Limited and Biota Scientific Management Pty Ltd.

	2007 \$'000
<b>Revenues from continuing operations</b>	54,250
<b>Other income</b>	1,470
Research and Development	(9,732)
Product Development	(10,299)
Business Development	(1,091)
Sub-royalty expense	(4,864)
Corporate-Head Office	(9,452)
Corporate- Litigation	(10,426)
Finance cost	(1,691)
<b>Profit/(Loss) from before income tax</b>	8,165
Income tax credit	2,349
<b>Profit/(Loss) for the year</b>	10,514
<b>Summary of movements in consolidated retained profits</b>	
<b>Retained profits at the beginning of the financial year</b>	(89,020)
Profit for the year	10,514
<b>Retained profits/(loss) at the end of the financial year</b>	(78,506)

### 33 Deed of Cross Guarantee (continued)

#### (b) Balance Sheet

Set out below is a consolidated balance sheet as at 30 June 2007 of the Closed Group consisting of Biota Holdings Limited and Biota Scientific Management Pty Ltd.

	<b>2007</b> <b>\$'000</b>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	62,154
Trade and other receivables	9,350
	71,504
<b>Non-current assets</b>	
Receivables	8,743
Property, plant and equipment	5,152
Deferred tax assets	2,349
Intangible assets	13,447
	29,691
<b>Total assets</b>	101,195
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Trade and other payables	5,953
Deferred revenue	4,004
Borrowings	-
Provisions	1,097
	11,054
<b>Non-current liabilities</b>	
Provisions	6,339
	6,339
<b>Total liabilities</b>	17,393
<b>Net assets</b>	83,802
<b>EQUITY</b>	
Contributed equity	161,672
Reserves	636
Accumulated losses	(78,506)
<b>Total equity</b>	83,802