Biotron

Biotron Limited ABN 60 086 399 144

Financial Report

for the year ended 30 June 2005

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additional stock exchange information

Home Exchange
The Company is listed on the Australian Stock Exchange Limited. The home exchange is Sydney.

Use of Cash and Assets
Since the Company's listing on the Australian Stock Exchange, the Company has used its cash and assets in a way consistent with its stated business objectives.

Class of Shares and Voting Rights
There is only one class of shares in the Company, fully paid ordinary shares.

The rights attaching to shares in the Company are set out in the Company's Constitution. The following is a summary of the principal rights of the holders of shares in the Company.

Every holder of shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of shares who is present in person or by proxy, attorney or representative has one vote for every fully paid share registered in the shareholder's name on the Company's share register.

A poll may be demanded by the chairperson of the meeting, by at least 5 shareholders entitled to vote on the resolution or shareholders with at least 5% of the votes that may be cast on the resolution on a poll.

Substantial Shareholders
As at the date of the Directors' Report, the Register of Substantial Shareholders showed the following:

Peter Gage	9,200,000 fully paid ordinary shares
Australian National University	6,180,000 fully paid ordinary shares
Peter G. Scott	4,250,000 fully paid ordinary shares
Gail S. Scott	4,249,550 fully paid ordinary shares

Distribution of Equity Securityholders
As at 11 August 2005, the distribution of each class of equity was as follows:

Range	Fully Paid Ordinary Shares	30 September 2005 $0.50 Options	14 January 2007 $0.60 Options	14 January 2007 $0.75 Options	14 January 2007 $1.00 Options
1- 1,000	61	-	-	-	-
1,001 - 5,000	558	-	-	-	-
5,001 - 10,000	343	-	-	-	-
10,001 – 100,000	580	-	-	-	-
100,001 and over	61	3	1	1	1
	1,603	**3**	**1**	**1**	**1**

At 11 August 2005, 498 shareholders held less than a marketable parcel of 4,167 shares.

Twenty Largest Quoted Shareholders
At 11 August 2005 the twenty largest fully paid ordinary shareholders held 64% of fully paid ordinary as follows:

	Name	Fully Paid Ordinary Shares	%		Name	Fully Paid Ordinary Shares	%
1	Peter Gage	9,200,000	13.2	12	Lujeta Pty Ltd	557,078	0.8
2	Australian National University	6,180,000	8.9	13	Christopher David Hammer	542,736	0.8
3	Peter Scott	4,250,000	6.1	14	Dr Gary Dinneen Ewart	500,000	0.7
4	Gail Scott	4,249,550	6.1	15	Tricom Nominees Pty Ltd LPG A/c	500,000	0.7
5	Angela Dulhunty	2,400,000	3.4	16	Jey Investment Pty Ltd	495,866	0.7
6	Chris and Bhama Parish	2,100,000	3.0	17	LPA No 2 Pty Ltd Daris Super Fund A/c	410,844	0.6
7	Carrington Services Pty Ltd	2,000,000	2.9	18	Ian Gavin & Marion Platt-Hepworth		
8	Philip and Marylyn Board	1,799,950	2.6		Platt-Hepworth Family Super Fund A/c	375,250	0.5
9	Michael Hoy	1,023,800	1.5	19	Colvic Pty Ltd	353,800	0.5
10	Peter Nightingale	1,000,000	1.4	20	Linkenholt Pty Limited		
11	CBDF Pty Limited	573,800	0.9		Grant Austin Family A/c	326,306	0.5

There are no current on-market buy-backs.

chairman's report

The last twelve months has seen major advances in progression of the Company's projects – particularly the Virion antiviral technology. The Virion-HIV program has progressed through an extensive lead optimisation and testing program, involving a succession of in vitro and in vivo studies aimed at identifying the lead candidate compound with the most favourable characteristics in terms of efficacy against HIV in vitro, toxicity in animals, bioavailability, drug half-life and ease of synthesis to progress to the clinic.

Since the end of the financial year, a lead candidate has been selected. This significant event means the Company has a drug with all the necessary characteristics to successfully advance to clinical trials.

Your Board continues to define strategies to guide the Company's development. As part of this strategy, we have expanded the Company's technology goals beyond HIV to encompass a wider range of antiviral therapeutics, including hepatitis-C and dengue virus.

The Virion technology has the potential to treat a wider range of viral diseases, substantially adding further to its value. Progress on development of a small molecule therapy for HCV has been particularly rapid. The lead compound selected for HIV-1 also has activity against HCV, opening up possibilities to fast-track the drug against HCV in parallel with HIV. The recent development of assays by Biotron to screen libraries of compounds for activity against HCV, previously restricted due to absence of reliable, infectious assays for the virus, has added additional value to this exciting antiviral franchise.

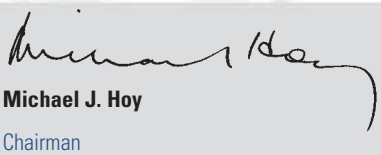
The competitive position of C-Test has been advanced by optimisation of technology for extraction and analysis of specific biomarkers in the blood of cancer patients. These improvements have resulted in decreased variability and increased sensitivity of the cancer test. Together with previous advances in sample processing and algorithm/software development, the C-Test cancer diagnostic test format is well placed to take advantage of recent upsurge in interest in biomarkers for disease diagnosis by the international scientific and medical community.

In addition to the previously awarded Start and BIF grant funding, during the first half of 2005 Biotron was awarded a competitive grant of $200,000 from the ACT government to facilitate further commercial development of C-Test for prostate and colorectal cancers. Receipt of competitive, rigorously reviewed grants is an acknowledgement of Biotron's competitiveness and the commercial potential of the Virion and C-Test projects.

We were all saddened by the recent death of Biotron founder and fellow director, Professor Peter Gage whose ion channel research formed the basis of the Company's Virion project. He was an internationally acclaimed pioneer of the use of ion channels as a treatment for viral diseases, and Biotron is now privileged to have the opportunity to develop the outcomes of his research into treatments for life-threatening diseases such as HIV and HCV.

On behalf of the shareholders and directors, I would like to thank all Biotron staff for their untiring efforts during the year. Thanks to their commitment and dedication, your Company is well placed to meet the next stage of its development.

Yours sincerely



Michael J. Hoy

Chairman

review of operations

OVERVIEW

During the year ended 30 June 2005 there has been a continued focus on the commercial development of the key biomedical projects managed and funded by the Company.

The following significant events were achieved during the year under review:

- Substantial improvement in the design of many new Virion compounds based on results from past studies, resulting in compounds with improved efficacy and toxicity profiles.
- Successful completion of preliminary preclinical toxicity testing of Biotron's lead antiviral compounds, including initial pharmacokinetic and chemical stability studies.
- Demonstration of the efficacy of Biotron compounds against multiple drug resistant strains of HIV.
- Selection of a lead compound for progression to manufacture and formal safety studies.
- Development of the Company's anti-HCV program, including setting up a novel infectious assay for HCV and a collaboration with the prestigious MacFarlane Burnet Institute
- Further demonstration that the Company's anti-viral technology platform is effective against a number of virus classes.
- Publication in the peer-reviewed international scientific journal, Virology, of a paper describing research associated with the SARS coronavirus drug discovery program.
- Issue of a key Virion patent covering the first generation of the Company's anti-HIV inhibitors.
- Initiation and successful implementation of a Share Purchase Plan to eligible shareholders, raising in excess of $1.2 million.
- Successful application for a $200,000 competitive grant from the ACT government's Knowledge Fund for further development and commercialisation of C-Test diagnostic test for prostate cancer.
- The Company continued to receive grant funds under the Commonwealth Government's R&D Start and Biotechnology Innovation Fund ('BIF') Programs.

BIOTRON'S PROJECTS

During the past financial year, the Company's efforts have been focused on commercial development of the Virion and C-Test Projects. These projects are the most advanced within the Company, and address unmet medical needs and have enormous commercial potential. Both projects have the potential to generate returns in a relatively short time frame.

During the year, Biotron was awarded a $200,000 Knowledge Fund grant from the ACT government for progressing the C-Test cancer diagnostic technology. The Company has continued to receive funds from successful grant applications under the Federal government's BIF and Start grant programs. These grants will provide in excess of $2 million to the Company, concluding in mid-2006. Biotron's success in obtaining these independently reviewed, competitive grants demonstrates the international competitiveness, innovation, and commercial potential of the Company's projects.

Biotron's model is to take projects such as C-Test and Virion through proof-of-concept studies into preclinical and early-stage clinical development. The Company then aims to form partnerships and alliances with international pharmaceutical or biotechnology companies for further late-stage clinical development and marketing of products. Income received from such alliances will be committed to further the commercial development of existing and new Tier 2 Projects. During the year in review, Biotron has continued with promotion of its technologies to potential international partners, which will facilitate finalisation of an alliance at the appropriate stage of development of the projects.

Virion Project

Human Immunodeficiency Virus

Since inception of the Company, Biotron has pursued a program of identification, characterisation and pre-clinical evaluation of small molecular compounds that inhibit a new class of antiviral targets known as 'viroporins'. Through blocking the ion channel activity of viroporins, these compounds are able to inhibit viral budding and replication. Proteins targeted under Biotron's research program include Vpu of Human Immunodeficiency virus type 1 ('HIV-1'), p7 of Hepatitis C virus ('HCV'), M protein of Dengue virus and E protein of coronaviruses including Sudden Acute Respiratory Syndrome ('SARS') coronavirus.

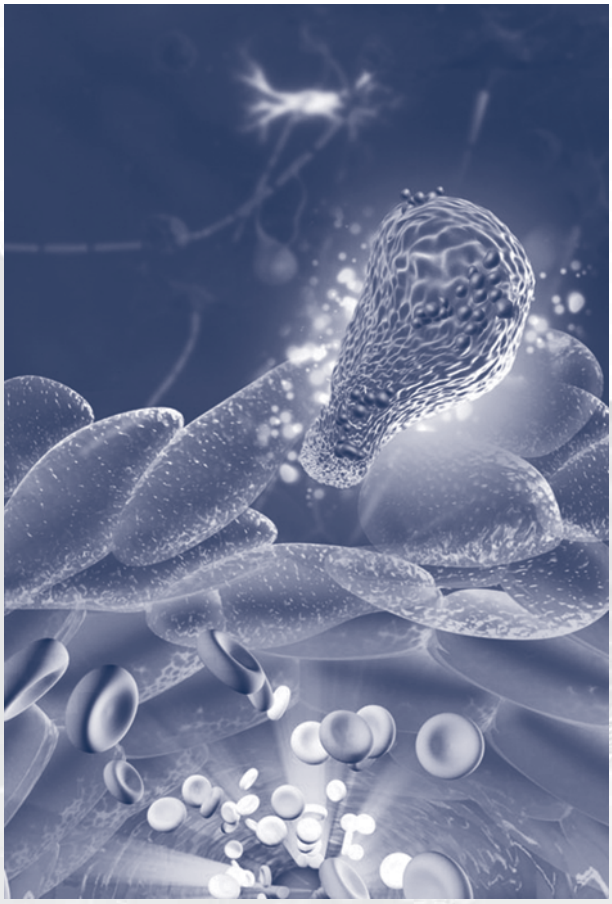


Figure A: Macrophages are reservoirs of HIV in the human body. Virus buds from these cells, and spreads throughtout the body.

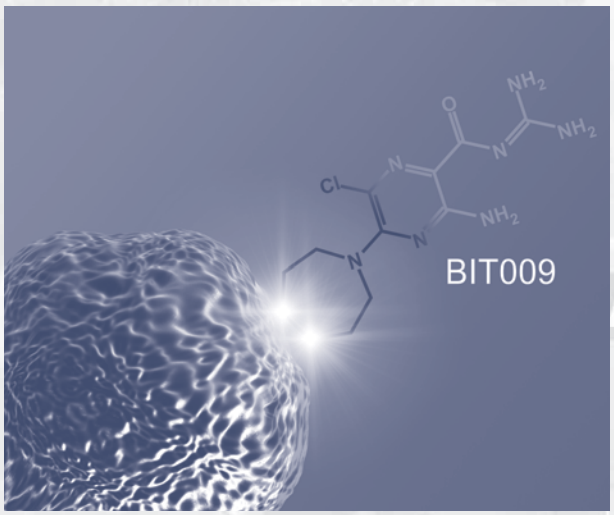
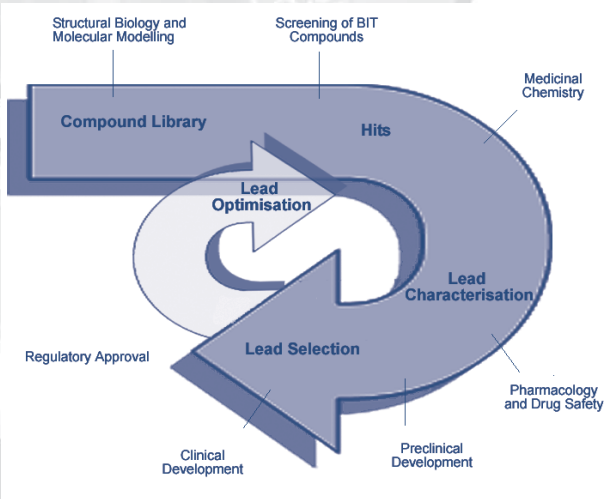


Figure B: Biotron's compounds inhibit budding or release of HIV from infected macrophages, preventing the virus from spreading throughout the body.

Of these targets, the HIV/Vpu program is the most advanced, with lead candidates currently in preclinical safety tests. Vpu represents a new drug target in the fight against HIV. The protein plays an important role in the budding and release of newly formed viruses from infected cells, a process that is crucial for the progression of infection. Existing HIV therapeutics are directed at one of three stages in viral replication: reverse transcription, protease activity and receptor binding to facilitate viral entry into the host cell. As a result of the limited range of drug targets, the emergence of drug resistant viral strains has become a significant issue. By blocking a new pathway in HIV infectivity, Vpu inhibitors have the potential to combat drug-resistant viral strains, in combination with highly active antiretroviral therapies ('HAART') and in monotherapy.

Biotron's Vpu inhibitors are also atypical in that they are particularly effective against monocytes and macrophages, both of which are cell types that current regimens of HAART fail to target successfully. Recent research has highlighted the importance of these cells in HIV infection by demonstrating that they can act as reservoirs of virus in HIV-infected individuals.

Biotron's drug selection process began with the design and synthesis of a library containing hundreds of compounds with the structural potential to block ion channel activity. The structure of BIT009, one of the Company's earliest compounds identified by Biotron researchers as a Vpu inhibitor but not having developable characteristics necessary for a clinical candidate, was used as a starting point for this design process. From the library of compounds developed by the Company, several lead candidates were selected using the Company's proprietary rapid, high throughput bacterial cell assays. These lead candidates were independently tested overseas and shown to be able to inhibit replication of HIV-1 virus.



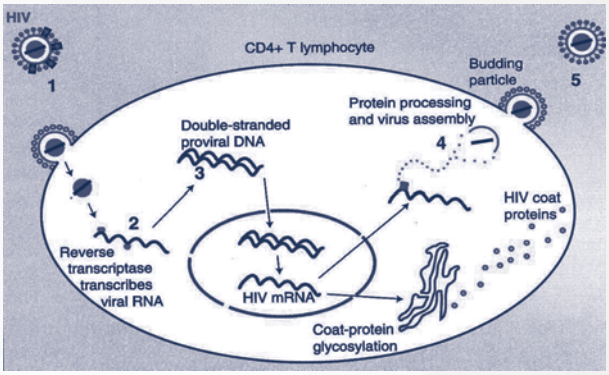
Biotron's Drug Development Pathway. Biotron has selected a lead compound for progression into clinical development ie. human trials.

review of operations

The past year has involved an extensive preclinical development program to confirm and measure the safety and efficacy of these lead candidates, with the aim of selecting the best candidate as the lead compound to progress to human clinical trials.

The results of preclinical studies, including acute toxicity, pharmacokinetics, in vitro metabolism, chemical stability and receptor-hit screening were reviewed collectively to make the selection of a lead compound. The selected lead compound not only shows the highest level of anti-viral activity, but also demonstrates good levels of bioavailability, an excellent metabolism profile and high stability following oral dosing in rodents. The extensive studies performed on this lead compound leading up to its selection translate into a minimisation of risk as the compound moves ahead to the clinical trials.

Confidence in Virion technology has been reinforced by recent results that demonstrate antiviral activity against strains of HIV that are resistant to other HIV drugs. These studies, undertaken by the Southern Research Institute of Maryland, USA, are significant as they indicate that the Company's compound has the potential to treat AIDS patients who have failed existing therapies, broadening the range of patients for whom this treatment may be suitable. The development of resistant viral strains is a leading reason for failure of antiretroviral therapy, and occurs in up to 28% of HIV positive patients. Biotron's anti-HIV therapy represents a first in class approach to the treatment of HIV.



HIV therapies (drugs, vaccines) have different modes of action.

1. **HIV-1 virus binding to a cell (e.g. antibodies to gp120)**
2. **Reverse transcriptase (non-nucleoside, e.g. Nevirapine)**
3. **Reverse transcriptase (nucleoside, e.g. AZT)**
4. **Virus assembly and maturation (interferons and protease inhibitors, e.g. Indinavir)**
5. **Virus budding (Vpu inhibitors)**

Biotron's compounds have a novel mode of action, working at a different stage of the life cycle to other HIV drugs, preventing release of infectious virus.

After engaging a leading active pharmaceutical ingredient supplier for process development and drug manufacture, Biotron is on track to progress its lead compound to Phase I/IIa clinical trials in humans in 2006. Discussions are now underway with HIV specialists and clinical trial consultants, regarding the design and location of a Phase I/IIa clinical trial in humans. Consultations with appropriate regulatory authorities are also in progress.

The Start grant ($1.7 million) will expedite the development of an HIV therapeutic through preclinical testing and a Phase I/IIa trial in humans which will be undertaken prior to partnering with an international pharmaceutical company for further development.

In parallel with its preclinical program, Biotron continues to undertake research to further characterise the mode of action for its Virion platform technology. In collaboration with researchers at the University of Melbourne, Biotron is working to characterise the molecular mechanism through which the Company's drugs are able to inhibit Vpu activity and determine the immuno-modulatory effects of Vpu inhibition on human immune cells.

Hepatitis C and Other Viruses

One of the benefits of having a true platform technology is that the preclinical and clinical studies undertaken for the HIV technology will facilitate development of therapeutics which can target the other viral diseases currently being researched by the Company.

Biotron researchers have designed and tested over 250 compounds in its Virion antiviral program, and are currently screening these compounds for activity against the HCV p7 protein, with the aim of identifying a lead candidate to progress to clinical trials. A research alliance has been established with the Hepatitis Laboratory at the MacFarlane Burnet Institute to further validate p7 as a target for HCV therapeutics and test Biotron's antiviral compounds for activity in relevant activity assays.

The absence of reliable, robust infectious assays for HCV has hampered development of HCV therapeutics internationally. Biotron has recently developed a novel assay for HCV, utilising a related virus in combination with specific sequences taken from HCV. This assay is a very valuable tool for Biotron in identification of compounds with HCV activity, and will also have considerable value to potential partners. In combination with Biotron's rapid bacterial-based screening assay for HIV, this new infectious assay puts Biotron at the forefront of development of HCV therapeutics.

In another positive development, the results of recent studies undertaken in conjunction with researchers at the National Institute of Health ('NIH') in the USA demonstrate that Biotron compounds have strong

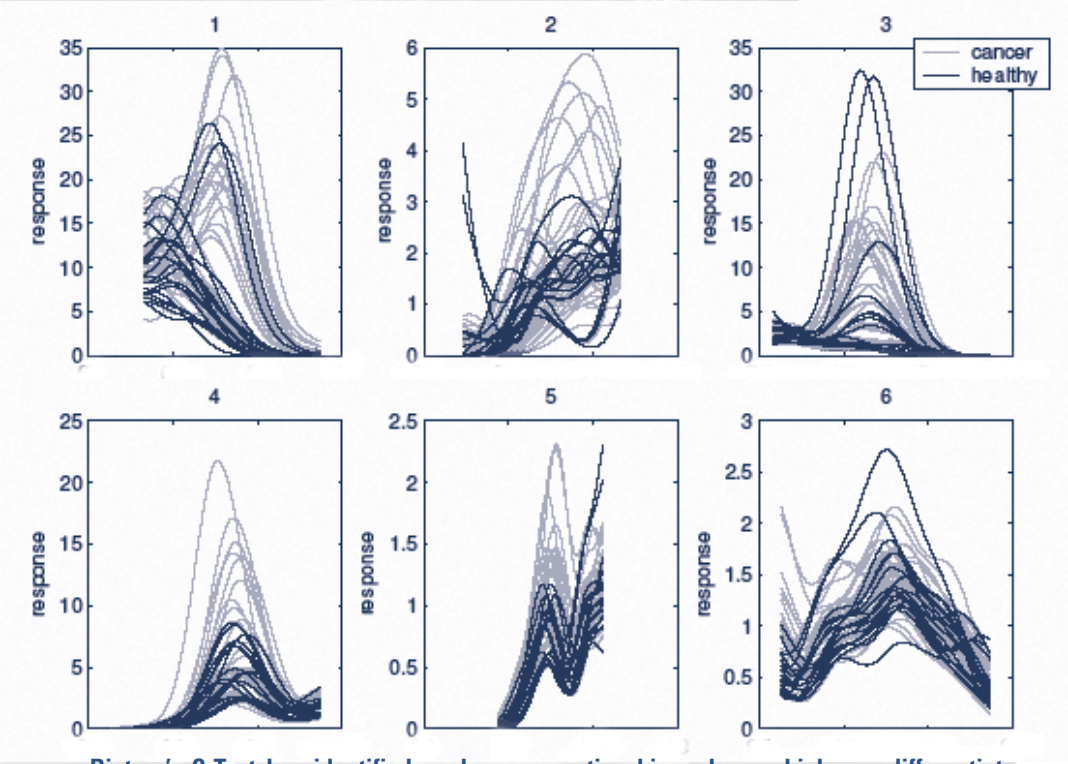
inhibitory activity against a range of additional viruses. These results further demonstrate the broad base and extensive commercial potential for Biotron's antiviral platform.

During the year, on-going discussions have been held with potential partners regarding the Virion technology. Whilst keen to secure a partner to take the compounds through into clinical development, Biotron can vastly increase the value of the technology by undertaking the proposed early (Phase I/IIa) clinical trial before forming an alliance. This will translate into much higher returns to the Company in the form of upfront payments as well as increased milestone and royalty payments in the future.

C-Test

Cancer cells have a number of characteristics that distinguish them from normal cells. Most tumour markers are neither sensitive nor specific enough to screen for cancer or to diagnose the type of cancer without the support of other clinical tests. While a number of tumour markers have been identified in the past, they have generally been found to lack sensitivity and specificity for different types of cancers.

There is a real call for new tests that allow unambiguous cancer diagnoses to be made at an early stage. The best tests will be simple and non-invasive assays that allow rapid and accurate diagnosis of the type of cancer and its stage.



Biotron's C-Test has identified peaks representing biomarkers which can differentiate between patients with or without prostate cancer.

To address this need, Biotron is developing sensitive, rapid, non-invasive assays to detect and diagnose specific types of cancer. Research undertaken by the C-Test Project team has led to the profiling of sera from patients with different types of cancer, showing that the glycolipid expression pattern is unique between cancer types. The Company has developed proprietary technology for extraction and analysis of carbohydrates from blood, and has developed algorithms for analysing the expression profile of these molecules. Trials have been undertaken to demonstrate the utility of this glycomics approach for diagnosis of prostate and colorectal cancer. In 2005 Biotron was awarded a competitive grant of $200,000 from the ACT government to facilitate further commercial development of C-Test for these diseases.

In the past year, Biotron has continued to optimise its assay methods and identify differences in the free oligosaccharide and glycolipid expression profiles between cancer patients and normal individuals. Data analysis is being undertaken in collaboration with several groups including the CSIRO. As a result of this work, Biotron is developing a reliable, reproducible assay that reflects the underlying disease status of the patient.

In the coming year, the Company aims to extend its studies to include patients with breast cancer and mesothelioma.

Analysis of biomarkers in the blood for diagnosis of diseases such as cancer is receiving increased attention in the scientific and medical fields. Biotron's technology is well placed to take advantage of this upsurge of interest internationally. Biotron has a strong competitive position and has filed international patent applications to protect the C-Test technology platform. Biotron's primary aim is to generate a commercialisable product that can be moved into the marketplace as rapidly as possible.

Tier 2 Projects

The remaining Tier 2 Projects are underpinned by a platform technology, research on ion channels in membranes, which allows several scientists to work in different, yet related, areas of research with the results of work in one area providing benefits to other research activities. These projects are at an earlier stage of development than the Virion and C-Test Projects and, in accordance with the Company's focus on the commercial development of the Virion and C-Test Projects, limited resources are committed to the Tier 2 Projects at this stage. As these projects develop and resources become available through the commercialisation of the more advanced Tier 1 Projects, additional resources will be committed as they reach specific commercially-focused milestones.

Research has progressed throughout the year on the Tier 2 Projects as discussed below.

Muscion

Contraction of muscle, including heart muscle, depends on release of calcium from stores inside cells through calcium channels called ryanodine receptors. The Muscion Project team is identifying compounds that selectively target ryanodine receptors in heart, skeletal and insect muscle. Biotron researchers are developing drugs to boost the output of a damaged or failing heart muscle, and as part of this process have identified peptides that stimulate heart muscle contraction in vitro.

During the past year, work has continued to be focused on characterisation of small molecule compounds, identified in collaboration with researchers at the ANU, which target the human ryanodine receptor. These compounds are potential therapeutics for cardiovascular disease, and are being assessed for their ability to reverse heart failure in appropriate disease models.

Hypoxion

The Hypoxion Project involves developing compounds that will reduce damage in cells deprived of their blood supply (eg following heart attack or stroke). When blood supply is compromised, cells are starved of oxygen. The consequent build-up of calcium in cells exposed to hypoxia kills them. The aim is to significantly reduce the patient death/disablement rate by stopping the build-up of calcium and saving cells.

The project has two approaches, both aimed at preventing the flow of sodium ions through 'persistent' sodium channels that they have found are opened by hypoxia. The first approach is to screen for compounds that can specifically block persistent sodium channels. The second line of research that is in progress aims to find a way to break the link between hypoxia and the opening of persistent sodium channels.

GeneTrans

The GeneTrans Project has focused on a drug transport protein called MRP2. Drug transport proteins have utility in drug screening tests that will help predict the metabolism and safety of new pharmaceuticals. Screening tests are a vital part of the drug development process. If toxicity is detected in the early pre-clinical stage of testing, further testing on animals is avoided and the cost of drug development is significantly decreased. Biotron has generated a novel cell line expressing MRP2 and has developed a drug screening assay using this technology. This technology is available for licensing to commercial organisations as well as research establishments.

Gabion

The Gabion Project team is researching the effects of known compounds that act on the $GABA_A$ receptor. Research undertaken as part of the Gabion Project to determine the effects of GABA receptor associated protein on expressed receptors is providing important new information about drug effects on these receptors and has implications for the development of high throughput screens that will assist and accelerate the drug discovery process.

PATENT APPLICATION DEVELOPMENTS

Biotron recognises that the key to establishment of partnerships is the expansion and continued strengthening of Biotron's intellectual property (IP) portfolio. Strong, defensible, international patents are essential to attract partners and to ensure a competitive advantage for our products in the marketplace. Due to the amount of interest now being shown by research groups around the world in the viral ion channel area, Biotron continues to build a strong defensible wall of patents around the Company's intellectual property to maximise the value of the technology and to ensure Biotron's competitive position.

During the past year, Biotron filed a new provisional patent entitled Antiviral Compounds and Methods, covering the most recent classes of compounds designed, synthesised and tested in the Virion antiviral program. Additional applications are pending.

A summary of Biotron's patent portfolio and status of patent applications is set out in the table below.

TITLE	COUNTRY	APPLICATION PATENT NO.	STATUS
A method of modulating ion channel functional activity	Australia New Zealand Canada Europe China Japan USA Hong Kong	11370/00 510437 2345896 99970324 99812019 575514/00 09/807277 02100875.8	Granted Granted Requested examination Under examination Under examination Requested examination Under examination Under examination
A method of determining ion channel activity of a substance	Australia USA Canada Europe Japan	724870 6355413 12266334 97918844 515070/1998	Granted Under examination Under examination Under examination Requested examination
Antiviral compounds and methods	Australia/ International	2004000866	PCT Filed June 2004
Antiviral compounds and methods	Australia	Provisional filed June 2005	Provisional
Method of identifying cancer markers and uses therefore in the diagnosis of cancer	Australia New Zealand USA Europe Canada Japan China Brazil Singapore South Africa South Korea Hong Kong	200172220/01 524197 10/333348 1951237 2416375 2002514403 1814937 PI0112644 200300370-4 2003/1211 10-2003-7000848 03108571.7	Under examination Granted Awaiting examination Awaiting examination Awaiting examination Awaiting examination Under examination Awaiting examination Granted Granted Awaiting examination Awaiting examination
A novel cancer marker and uses therefore in the diagnosis of cancer	Australia New Zealand USA Europe Canada Japan China Brazil South Africa South Korea	2002313402 531450 10/212856 752896 2457437 2003-519405 02817623.5 PI011697 2004/1726 2004-7001684	Requested examination Under examination Under examination Awaiting examination Awaiting examination Requested examination Awaiting examination Under examination Awaiting examination Awaiting examination
Modified proteins, isolated novel peptides, and uses therefor	Australia USA Europe Japan	2001285578 10/363112 01964732.0 2002-523952	Requested examination Awaiting examination Awaiting examination Awaiting examination
Method of modulating the activity of calcium channels in cardiac cells and reagents therefor	Australia New Zealand	2002252850 529940	Awaiting examination Under examination

corporate governance statement

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors

The board of directors is responsible for the overall corporate governance of the Company including its strategic direction, setting remuneration, establishing goals for management and monitoring the achievement of these goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The composition of the board has been determined on the basis of providing the Company with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. The names and further information regarding the skills, experience, qualifications and relevant expertise of the directors are set out in the Directors' Report. The board is composed of a minimum of two directors.

The composition of the board is monitored constantly to ensure that it provides the Company with the appropriate levels of both expertise and experience. The board comprises a majority of non-executive directors including the Chairperson, all of whom are considered to be independent. The independence of directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests.

When a vacancy exists, through whatever cause, or where it is considered that the board would benefit from the services of a new director with particular skills, the board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed and the board appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Each director has the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, but such approval is not unreasonably withheld. A copy of the advice received by the director is made available to all other members of the board.

In the event that a potential conflict of interest may arise, involved directors must withdraw from all deliberations concerning the matter.

The remuneration of the directors is determined by the board as a whole, with the director to whom a particular decision relates being absent from the meeting during the time that the remuneration level is discussed and decided upon. Further information and the components of remuneration for directors are set out in the Director's Report.

Due to the size of the Company and the board, a Nomination Committee, a Remuneration Committee and an Audit Committee have not been established.

Directors, officers and employees are permitted to trade in the Company's securities only in accordance with the provisions of the Corporations Act and ASX Listing Rules. The directors are under an obligation to report any dealings by them in the Company's securities.

Internal Controls

The board of directors acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The system of internal control adopted by the Company seeks to provide an appropriate division of responsibility and careful selection and training of personnel relative to the level of activities and size of the Company.

The full board takes responsibility for reviewing financial reporting procedures, internal controls and the performance of the financial management. Selected internal control mechanisms employed to support the business include:

- Investment appraisal – the Company has documented guidelines for capital expenditure and investment appraisals. These include annual budgets, expenditure review procedures and appropriate levels of authority.
- Business Planning, Budgeting and Reporting – A comprehensive business planning process includes evaluation of strategies, objectives, and risks resulting in an annual budget approved by the board. Monthly actual performance is reported against budget and revised forecasts for the year are prepared regularly.
- Quality and integrity of employees – there are clearly defined accountabilities, performance measures, and reinforcement of values and ethics by management.

External Auditors

Board nominees review the performance of the external auditors and meet with them during the half yearly review and annual audit to discuss any issues that have arisen with respect to accounting policies, any significant operational issues and level of proposed audit fees.

KPMG, the Company's auditors, were appointed on 20 November 2001.

Audit Committee

As at the date of the Directors' Report, there was no Audit Committee. An Audit Committee is not considered to be warranted because the involvement of the full board of directors in the activities of the Company.

Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, endeavouring at all times to enhance the performance and reputation of the Company. Every employee has direct access to a director to whom they may refer any ethical issues that may arise from their employment.

The Role of Shareholders

The board ensures that the shareholders are informed of all major developments affecting the Company by the following means:

- Distribution of the annual report to all shareholders which contains relevant information about the operations of the Company during the year in addition to disclosures required by the Corporations Act 2001.
- Lodgement of the half yearly report with the Australian Stock Exchange, which contains summarised and audit reviewed financial information. Copies of half yearly financial statements prepared in accordance with the Corporations Act are available to any shareholder on request.
- Lodgement of quarterly reports with the Australian Stock Exchange which show summarised financial information for the quarter. Copies of these reports are available to shareholders on request.
- Announcements to the Australian Stock Exchange concerning any significant development in the Company's operations, financing and administration. All announcements are immediately available to the general public.
- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document).
- Disclosure of all major announcements to the Australian Stock Exchange on the Company's website.
- The Annual General Meeting is the main opportunity for the shareholders to hear the Managing Director and Chairman provide updates on the Company's performance, ask questions of the Board and to express views and vote on various matters of business on the agenda.

Risk Management

The Board oversees the establishment, implementation and ongoing review of the Company's risk management and internal control system. The internal control system covers financial, operational and compliance risks.

Recommendations made by external auditors and other external advisers are investigated by the Board, and where necessary appropriate action is taken to ensure that the Company has the internal control environment to manage the key risks identified. Ways of enhancing existing risk management strategies, including segregation of duties, employment and training of suitably qualified and experienced personnel are investigated by the Board.

directors' report

The directors present their report together with the financial report of Biotron Limited ('the Company') for the year ended 30 June 2005 and the auditors' report thereon.

Directors

The names of the directors of the Company holding office at any time during or since the end of the financial year are:

Mr Michael J. Hoy
Independent and Non-Executive Chairman

Mr Hoy has more than 30 years' corporate experience in Australia, the United Kingdom, USA and Asia. He is Chairman of CityPrint Holdings Pty Limited and a former director of John Fairfax Holdings Limited and FXF Trust.

He has been a director since 7 February 2000 and Chairman since 16 March 2000.

Dr Michelle Miller, BSc, MSc, PhD
Managing Director

Dr Miller has over 20 years in the bioscience industry, with extensive experience in managing commercial bioscience research. She completed her PhD in the Faculty of Medicine at Sydney University investigating molecular models of cancer development. Her experience includes a number of years at Johnson and Johnson developing anti-HIV gene therapeutics through preclinical research to clinical trials. She has experience in early-stage start-ups from time spent as Investment Manager with a specialist bioscience venture capital fund.

She was appointed as Managing Director on 21 June 2002.

Professor Peter W. Gage, MB ChB, PhD, DSc FAA
Research Director

Professor Gage was professor of Physiology at the John Curtin School of Medical Research at the Australian National University and President of the Australian Physiological and Pharmacological Society.

He had more than 35 years' experience in medical research, including training medical researchers, particularly PhD students. For the past 25 years his research focus had been on ion channels.

Professor Gage was admitted as a fellow of the Australian Academy of Science in 1977 and was the recipient of an Award of a Special Research Centre by the government in 1982 for research on nerve and muscle ion channels.

He was a director from 23 February 1999 to 13 August 2005.

Dr Michael S. Hirshorn, MBA, MB, BS
Independent and Non-Executive Director

Dr Hirshorn has over 20 years' experience in the commercialisation of Australian Technology, particularly in the medical device industry, and extensive experience in collaboration with Australian research institutes.

He played a major role in all commercial aspects of Cochlear Limited's development, was a founding director of Resmed Inc., and Chief Executive Marketing for Polartechnics Limited.

He has served on numerous government advisory committees, including the Start IT and T Committee, the Start Grants Biological Sciences Committee of the Department of Industry, Science and Resources and is currently an Investment Manager with a venture capital firm, Nanyang Ventures.

Dr Hirshorn was appointed as a director on 16 March 2000.

Mr Bruce Hundertmark, BE, BEc
Independent and Non-Executive Director

Mr Hundertmark is an independent businessman and company director with a wide range of experience in high technology based company start-up operations and promoting the formation of venture capital companies, including News Datacom Limited in Israel and PT Indo Bio Products in Indonesia.

He has been a director of News International PLC, Prudential Cornhill Insurance Limited and was Managing Director of IMFC Limited, a merchant bank.

Mr Hundertmark was appointed as a director on 16 March 2000.

Mr Peter G. Scott
Non-Executive Director

Mr Scott is a founding director of Biotron Limited with more than 30 years of commercial and entrepreneurial experience in Australia.

He is a director of Scott's Acorn Pty Ltd and was formerly Chairman and Managing Director of Scottcom Pty Ltd and Managing Director of ICAM Pty Ltd, audio visual and multimedia companies.

Mr Scott has been a director since 23 February 1999.

Peter James Nightingale
Company Secretary

Mr Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

Mr Nightingale has, for the past 18 years, been a director or company secretary of a number of private and publicly listed companies in Australia, the USA and Europe including Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals NL, Bolnisi Gold NL, IMD Group Limited, ETT Limited and Planet Gas Limited. Mr. Nightingale has been responsible for the financial control, administration, secretarial and in-house legal functions of these companies.

Directors' Meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the year are:

Director	Board Meetings	
	Held	Attended
Michael J. Hoy	6	6
Michelle Miller	6	6
Peter W. Gage	6	3
Michael S. Hirshorn	6	5
Bruce Hundertmark	6	6
Peter G. Scott	6	6

Directors' Interests

At the date of this report, the interests of each director of the Company in the issued share capital and options of the Company are:

	Fully Paid Ordinary Shares	30 September 2005 $0.50 Options	14 January 2007 $0.60 Options	14 January 2007 $0.75 Options	14 January 2007 $1.00 Options
Michael J. Hoy	1,023,800	500,000	-	-	-
Michelle Miller	-	-	250,000	500,000	500,000
Peter W. Gage	9,400,000	-	-	-	-
Michael S. Hirshorn	-	200,000	-	-	-
Bruce Hundertmark	-	200,000	-	-	-
Peter G. Scott	8,573,800	-	-	-	-
Total	**18,997,600**	**900,000**	**250,000**	**500,000**	**500,000**

Option holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, indirectly or beneficially, by each specified director, including their personally-related entities, is as follows

	Held at 1 July 2004	Granted as remuneration	Exercised	Held at 30 June 2005	Vested and exercisable at 30 June 2005
Michael J. Hoy	500,000	-	-	500,000	500,000
Michelle Miller	1,250,000	-	-	1,250,000	1,250,000
Peter W. Gage	-	-	-	-	-
Michael S. Hirshorn	200,000	-	-	200,000	200,000
Bruce Hundertmark	200,000	-	-	200,000	200,000
Peter G. Scott	-	-	-	-	-

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each specified director, including their personally-related entities, is as follows

	Held at 1 July 2004	Purchased	Received on exercise of options	Sales	Held at 30 June 2005
Michael J. Hoy	1,000,000	23,800	-	-	1,023,800
Michelle Miller	-	-	-	-	-
Peter W. Gage	9,400,000	-	-	-	9,400,000
Michael S. Hirshorn	-	-	-	-	-
Bruce Hundertmark	-	-	-	-	-
Peter G. Scott	8,550,000	23,800	-	-	8,573,800

Remuneration Report

The policy of remuneration of directors and senior executives is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the executive directors who, in turn, evaluate the performance of all other senior executives. The evaluation process is intended to assess the Company's business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives

Remuneration generally comprises salary and superannuation. Longer term incentives are able to be provided through the Company's Incentive Option Plan which acts to align the directors and senior executives' actions with the interests of the shareholders. The remuneration disclosed below represent the cost to the Company for the services provided under these arrangements.

No Directors or senior executives receive performance related remuneration.

Details of options granted to directors and senior executives as part of their remuneration and the nature and amount of each major element of the remuneration of each director and senior executive of the Company are:

	Primary Salary and Fees $	Post-employment Superannuation benefits $	Equity Compensation Value of Options $	Total $
Directors				
Executive				
Michelle Miller	150,000	13,500	-	163,500
Peter W. Gage	70,000	2,700	-	72,700
Non-Executive				
Michael J. Hoy	60,000	5,400	-	65,400
Michael S. Hirshorn	30,000	2,700	-	32,700
Bruce Hundertmark	30,000	2,700	-	32,700
Peter G. Scott	19,583	13,117	-	32,700
Executive Officer				
Peter J. Nightingale	60,000	-	-	60,000

During the reporting period, there were no options over ordinary shares granted, or vested during the current year under the Incentive Option Plan.

Options

At the date of this report, unissued ordinary shares of the Company under option are:

Number of Options	Exercise Price	Expiry Date
900,000	$0.50	30 September 2005
250,000	$0.60	14 January 2007
500,000	$0.75	14 January 2007
500,000	$1.00	14 January 2007

The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Principal Activities

The principal activities of the Company during the financial year were the funding and management of intermediate and early applied biotechnology research and development projects.

Financial Result and Review of Operations

The operating loss of the Company for the financial year after income tax was $1,883,575 (2004 - $2,805,115).

The operations of the Company for the year are set out in the Review of Operations.

Impact of Legislation and Other External Requirements

From 1 July 2005 the Company is required to comply with Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board. The directors do not expect the impact of the resulting changes in accounting policies to be significant, as disclosed in Note 21 of the financial report.

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the consolidated entity.

Dividends

The directors recommend that no dividend be paid by the Company. No dividend has been paid or declared since the end of the previous financial year.

State of Affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Environmental Regulation

The Company's operations are not subject to significant environmental regulations under Commonwealth or State legislation in relation to its research projects.

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

Likely Developments

During the year ended 30 June 2005, the Company continued to fund and manage its research and development projects. The success of these research projects, which cannot be assessed on the same fundamentals as trading and manufacturing enterprises, will determine future likely developments.

In the opinion of the directors, it would prejudice the interests of the Company to provide additional information, except as reported in this Annual Report, relating to likely developments in the operations of the Company.

Non-audit Services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act 2001 is included in the directors' report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	2005 $	2004 $
Statutory audit		
Auditors of the Company - audit and review of financial reports (KPMG Australia)	15,614	16,233
Services other than statutory audit		
- Grant audit (KPMG Australia)	3,000	3,000

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out below and forms part of the directors' report for the year ended 30 June 2005.

This report has been signed in accordance with a resolution of the directors and dated 12 September 2005:

Michael J. Hoy
Director

Michelle Miller
Director

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Biotron Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005, there have been:

(i) no contravention of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit

KPMG

KPMG

S.J. Board
Partner

12 September 2005

statement of financial performance for the year ended 30 June 2005

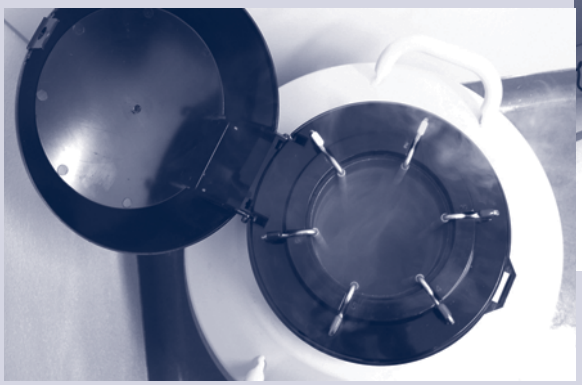
	Note	2005 $	2004 $
Other revenues from ordinary activities	2	754,044	707,428
Total revenue		754,044	707,428
Administration and consultants' expenses		(327,995)	(462,773)
Depreciation		(137,662)	(182,848)
Employee and director expenses		(446,669)	(431,056)
Direct research and development expenses		(1,404,084)	(2,081,410)
Rent and outgoings expenses		(82,641)	(119,957)
Legal expenses		(9,894)	(16,710)
Other expenses from ordinary activities		(228,674)	(217,789)
Loss from ordinary activities before related income tax expense	3	(1,883,575)	(2,805,115)
Income tax expense relating to ordinary activities	5	-	-
Net Loss		(1,883,575)	(2,805,115))
Basic loss per share	4	2.81 cents	4.38 cents
Diluted loss per share	4	2.81 cents	4.38 cents

statement of financial position as at 30 June 2005

	Note	2005 $	2004 $
CURRENT ASSETS			
Cash assets		2,112,796	2,617,629
Receivables	6	45,729	65,502
Inventories	7	38,781	64,590
Other	8	6,909	-
Total Current Assets		2,204,215	2,747,721
NON-CURRENT ASSETS			
Plant and equipment	9	224,393	361,509
Total Non-Current Assets		224,393	361,509
Total Assets		2,428,608	3,109,230
CURRENT LIABILITIES			
Payables	10	118,440	121,166
Provisions	11	31,438	32,167
Total Current Liabilities		149,878	153,333
Total Liabilities		149,878	153,333
Net Assets		2,278,730	2,955,897
EQUITY			
Contributed equity	12	12,651,368	11,444,960
Reserves	13	110,850	110,850
Accumulated losses	14	(10,483,488)	(8,599,913)
Total Equity		2,278,730	2,955,897

statement of cash flows for the year ended 30 June 2005

	Note	2005 $	2004 $
Cash flows from operating activities			
Cash receipts in the course of operations		669,528	572,218
Cash payments in the course of operations		(982,718)	(1,075,747)
Interest received		132,946	187,230
Payments for research and development		(1,530,451)	(2,289,551)
Net cash used in operating activities	15	(1,710,695)	(2,605,850)
Cash flows from investing activities			
Proceeds from sale of asset		-	3,018
Payments for plant and equipment		(546)	(154,952)
Net cash used in investing activities		(546)	(151,934)
Cash flows from financing activities			
Proceeds from issue of shares		1,206,408	-
Net cash provided by financing activities		1,206,408	-
Net decrease in cash held		(504,833)	(2,757,784)
Cash at the beginning of the financial year		2,617,629	5,375,413
Cash at the end of the financial year	15	2,112,796	2,617,629



1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

Basis of preparation

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

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

Revenue recognition

Interest revenue

Interest revenue is recognised as it accrues.

Research and development grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue on a cash receipts basis.

Taxation

Income tax

The Company adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Earnings per share

Basic earnings per share (EPS), is calculated by dividing the net profit for the reporting period by the weighted average number of ordinary shares of the company.

Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond reasonable doubt, in which case it is deferred and amortised on a straight line basis over the period in which the related benefits are expected to be realised.

Plant and equipment

Items of plant and equipment are initially recorded at cost and are depreciated over their estimated useful lives using the reducing balance method from the date of acquisition at rates between 13% and 40% per annum.

Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 60 days.

Incentive option plan

Where options are issued as remuneration for services rendered, the difference between the fair value of the options issued and the consideration received, if any, is expensed and the fair value of the options is recorded in the option premium reserve.

Inventories

Stock is carried at the lower of cost allocated and net realisable value.

Employee benefits

Wages, Salaries, Annual Leave and Sick Leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the company expects to pay as to reporting date including related on-costs, such as workers compensation insurance and superannuation.

2. REVENUE FROM ORDINARY ACTIVITIES

	2005 $	2004 $
Other revenues:		
From operating activities		
Interest - other parties	132,945	187,230
Research and development grants	621,099	520,198
Total revenue from ordinary activities	754,044	707,428

3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

Loss from ordinary activities before income tax expense has been arrived at after charging the following items:		
Auditors' remuneration paid to KPMG		
- Audit and review of financial reports	15,614	16,233
- Other audit services	3,000	3,000
Depreciation		
- Office equipment	11,204	16,721
- Plant and equipment	126,458	166,127
Direct research and development expenditure expensed as incurred	1,404,084	2,081,410
Provision for employee entitlements	729	16,935
Profit on sale of non-current assets	-	(1,343)

4. EARNINGS PER SHARE

Basic and diluted loss per share has been calculated using:

Net loss for the year	1,883,575	2,805,115
Weighted average number of ordinary shares	67,030,455	64,055,750

Options disclosed in the Contributed Equity note below are potential ordinary shares, but are not included in the calculation of diluted loss per share as they are not dilutive.

5. INCOME TAX EXPENSE

	2005 $	2004 $
Prima facie income tax benefit on operating loss at 30%	565,073	841,535
Tax effect of:		
Tax losses not brought to account	(564,234)	(840,202)
Permanent differences	(839)	(1,333)
Income tax expense attributable to profit from ordinary activities	-	-
The following potential income tax benefit calculated at 30% arising from tax losses has not been recognised as an asset because recovery is not virtually certain.		
Tax losses	3,374,650	2,810,416

The potential future income tax benefit will only be obtained if:

(a) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
(b) the Company continues to comply with the conditions for deductibility imposed by law; and
(c) no changes in tax legislation adversely affect the Company in realising the benefit.

The Company has no franking credits.

6. RECEIVABLES

Current		
Other debtors	45,729	65,502

7. INVENTORIES

Stores - at cost	38,781	64,590

8. OTHER CURRENT ASSETS

Prepayments	6,909	-

9. PLANT AND EQUIPMENT

	2005 $	2004 $
Office equipment - at cost	91,773	91,227
Accumulated depreciation	(74,223)	(63,019)
	17,550	28,208
Plant and equipment - at cost	892,480	892,480
Accumulated depreciation	(685,637)	(559,179)
	206,843	333,301
Total plant and equipment - net book value	224,393	361,509
Reconciliations		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
Office equipment		
Carrying amount at beginning of year	28,208	37,668
Additions	546	8,936
Disposals	-	(1,675)
Depreciation	(11,204)	(16,721)
Carrying amount at end of year	17,550	28,208
Plant and equipment		
Carrying amount at beginning of year	333,301	353,412
Additions	-	146,016
Depreciation	(126,458)	(166,127)
Carrying amount at end of year	206,843	333,301

10. PAYABLES

Current		
Other creditors and accruals	118,440	121,166

11. PROVISIONS

Current		
Employee entitlement provisions	31,438	32,167
Number of employees at year end	10	12

12. CONTRIBUTED EQUITY

	2005 $	2004 $
Issued and paid up capital		
69,800,550 (2004 - 64,055,750) fully paid ordinary shares	12,651,368	11,444,960

During the year ended 30 June 2005, in excess of 300 shareholders participated in a Share Purchase Plan, resulting in the allotment of 5,744,800 new fully paid ordinary shares for cash consideration totalling $1,206,408.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

The following options were on issue at 30 June 2005, each exercisable to acquire one fully paid ordinary share:
900,000 (2004 - 900,000) at $0.50 each at any time up to 30 September 2005.
250,000 (2004 - 250,000) at $0.60 each at any time up to 14 January 2007.
500,000 (2004 - 500,000) at $0.75 each at any time up to 14 January 2007.
500,000 (2004 - 500,000) at $1.00 each at any time up to 14 January 2007.

13. RESERVES

Option premium reserve		
Balance at beginning of year	110,850	110,850
Issue of options at a premium	-	-
Transfer to accumulated losses on lapse of options	-	-
Balance at end of year	110,850	110,850

This reserve represents the fair value, at the date of issue, of options on issue.

14. ACCUMULATED LOSSES

Accumulated losses at beginning of year	8,599,913	5,794,798
Net loss attributable to members of the Company	1,883,575	2,805,115
Accumulated losses at end of year	10,483,488	8,599,913

15. STATEMENT OF CASH FLOWS

	2005 $	2004 $
Reconciliation of operating loss after tax to net cash used in operating activities		
Operating loss after tax	(1,883,575)	(2,805,115)
Items classified as investing/financing activities		
Profit on sale on disposal of non-current assets	-	(1,343)
Non-cash items		
Depreciation	137,662	182,848
Provisions	(729)	16,935
Changes in assets and liabilities		
Decrease in receivables	19,773	1,183
Decrease in inventories	25,809	921
(Increase)/decrease in prepayments	(6,909)	10,399
Decrease in payables	(2,726)	(11,678)
Net cash used in operating activities	(1,710,695)	(2,605,850)
Reconciliation of cash		
For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and cash on deposit net of bank overdrafts and excluding security deposits. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash	2,112,796	2,617,629

16. DIRECTOR AND EXECUTIVE DISCLOSURE

Specified Directors' and Specified Executives' Remuneration

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives and to properly reflect the person's duties and responsibilities. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration. The non-executive directors are responsible for evaluating the performance of the executive directors who, in turn, evaluate the performance of all other senior executives.

Directors' base fees are presently up to $30,000 per annum. The Chairman receives up to twice the base fee and the Managing Director receives up to five times the base fee. Directors' fees cover all main board activities.

Options are issued under the Company's Incentive Option Plan which acts to align the directors' and senior executives' actions with the interests of the shareholders.

The following table provides the details of all directors ('specified directors') of the Company and the executives ('specified executives') with the greatest authority and the nature and amount of the elements of their remuneration for the year ended 30 June 2005.

	Year	Primary Salary and fees $	Post-employment Superannuation benefits $	Equity compensation Value of options $	Total $
Specified directors					
Non-executive					
Michael J. Hoy (Chairman)	2005	60,000	5,400	-	65,400
	2004	60,000	5,400	-	65,400
Michael S. Hirshorn	2005	30,000	2,700	-	32,700
	2004	30,000	2,700	-	32,700
Bruce Hundertmark	2005	30,000	2,700	-	32,700
	2004	30,000	2,700	-	32,700
Peter G. Scott	2005	19,583	13,117	-	32,700
	2004	30,000	2,700	-	32,700
Executive					
Michelle Miller	2005	150,000	13,500	-	163,500
(Managing Director)	2004	152,500	13,725	5,000	171,225
Peter W. Gage	2005	70,000	2,700	-	72,700
	2004	70,000	2,700	-	72,700
Total, all specified directors	2005	359,583	40,117	-	399,700
	2004	372,500	29,925	5,000	407,425
Specified executives					
Peter J. Nightingale	2005	60,000	-	-	60,000
(Company Secretary)	2004	66,000	-	-	66,000
Total, all specified executives	2005	60,000	-	-	60,000
	2004	66,000	-	-	66,000

Options and rights over equity instruments granted as remuneration

During the reporting period, there were no options over ordinary shares granted, or vested during the current year under the Incentive Option Plan.

17. RELATED PARTY DISCLOSURES

Directors

The name of each person holding the position of director of the Company during the financial year is Michael J. Hoy, Michelle Miller, Peter W. Gage, Michael S. Hirshorn, Bruce Hundertmark and Peter G. Scott. Details of directors' remuneration are set out above.

Details of relevant interests of directors of the Company and their director-related entities in shares and options of the Company at year end are as follows:

Option holdings

	Held at 1 July 2004	Granted as remuneration	Exercised	Held at 30 June 2005	Vested and exercisable at 30 June 2005
Specified directors					
Michael J. Hoy	500,000	-	-	500,000	500,000
Michelle Miller	1,250,000	-	-	1,250,000	1,250,000
Peter W. Gage	-	-	-	-	-
Michael S. Hirshorn	200,000	-	-	200,000	200,000
Bruce Hundertmark	200,000	-	-	200,000	200,000
Peter G. Scott	-	-	-	-	-
Specified executives					
Peter J. Nightingale	-	-	-	-	-

Equity holdings and transactions

	Held at 1 July 2004	Purchased	Received on exercise of options	Sales	Held at 30 June 2005
Specified directors					
Michael J. Hoy	1,000,000	23,800	-	-	1,023,800
Michelle Miller	-	-	-	-	-
Peter W. Gage	9,400,000	-	-	-	9,400,000
Michael S. Hirshorn	-	-	-	-	-
Bruce Hundertmark	-	-	-	-	-
Peter G. Scott	8,550,000	23,800	-	-	8,573,800
Specified executives					
Peter J. Nightingale	1,000,000	-	-	-	1,000,000

During the year ended 30 June 2005, directors and director-related entities purchased 47,600 fully paid ordinary shares for total amount of $9,996 pursuant to the Company's Share Purchase Plan.

During the year ended 30 June 2005, directors and director related entities neither purchased nor sold any options in the Company.

During the year ended 30 June 2005, Michael J. Hoy had an interest in an entity, CityPrint Pty Limited, which provided printing services to the Company. Payments to CityPrint Pty Limited, which were in the ordinary course of business and on normal terms and conditions, amounted to $15,479 (2004 - $16,123).

18. EMPLOYEES AND INCENTIVE OPTION PLAN

At 30 June 2005, the Company had 10 employees (2004 - 12). All other personnel are contracted by the Company on a consultancy basis.

The Company has an Incentive Option Plan to provide eligible persons, being employees or directors, or individuals whom the Plan Committee determine to be employees for the purposes of the Plan, with the opportunity to acquire options over unissued ordinary shares in the Company. The number of options granted or offered under the Plan will not exceed 10% of the Company's issued share capital and the exercise price of options will be the greater of the market value of the Company's shares as at the date of grant of the option or such amount as the Plan Committee determines. Options have no voting or dividend rights.

18. EMPLOYEES AND INCENTIVE OPTION PLAN (continued)

In the event that the employment or office of the optionholder is terminated, any options which have not reached their exercise period will lapse and any options which have reached their exercise period may be exercised within three months of the date of termination of employment. Any options not exercised within this three month period will lapse.

No options were granted pursuant to the Incentive Option Plan during the year ended 30 June 2005. No ordinary shares have been issued as a result of the exercise of any options granted pursuant to the Incentive Option Plan.

These options are not listed and accordingly have no market value at year end. The market value of the ordinary shares under option at 30 June 2005 was $0.13 (2004 - $0.19) each. The amount recognised in the financial statements in relation to the Incentive Option Plan during the financial year was $nil (2004 - $5,000). Options issued pursuant to the plan are summarised below:

Grant Date	Exercise Date	Expiry Date	Exercise Price	Number of Options 30 June 2004 On Issue	30 June 2005 On Issue	30 June 2005 Vested
24/01/03	24/01/03	30/09/05	$0.50	900,000	900,000	900,000
06/02/02	06/02/02	14/01/07	$0.60	250,000	250,000	250,000
28/06/03	30/06/03	14/01/07	$0.75	500,000	500,000	500,000
28/06/03	30/06/04	14/01/07	$1.00	500,000	500,000	500,000
				2,150,000	2,150,000	2,150,000

19. FINANCIAL INSTRUMENTS DISCLOSURE

Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is as follows:

	Note	Weighted average interest rate %	Floating interest rate $	Non-interest bearing $	Total $
2005					
Financial assets					
Cash assets		4.38	2,112,796	-	2,112,796
Receivables	6	-	-	45,729	45,729
Financial liabilities					
Payables and provisions	10 and 11	-	-	149,879	149,879

	Note	Weighted average interest rate %	Floating interest rate $	Non-interest bearing $	Total $
2004					
Financial assets					
Cash assets		4.38	2,617,629	-	2,617,629
Receivables	6	-	-	65,502	65,502
Financial liabilities					
Payables and provisions	10 and 11	-	-	153,333	153,333

19. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

Credit risk exposure

The credit risk exposure on financial assets of the Company which have been recognised in the statement of financial position is the carrying amount, net of any provision for doubtful debts.

Credit risk on cash assets is minimised by dealing with Australian regulated banks.

Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair values.

20. FINANCIAL REPORTING BY SEGMENTS

The Company operates in the biotechnology industry in Australia.

21. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the Company must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

The Company has conducted a review of the impacts of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005. The Company's implementation review is achieving its scheduled milestones and the Company is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed as at 30 June 2005.

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase incorporated:

- formulating revised accounting policies and procedures for compliance with AIFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;
- developing revised AIFRS disclosures;
- designing accounting and business processes to support AIFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The design phase is substantially completed as at 30 June 2005.

21. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures processes and systems and operational training for staff and enables the Company to generate the required reconciliations and disclosures of AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards.

The implementation phase is substantially completed as at 30 June 2005.

Impact of transition to AIFRS

The directors do not expect the impact of the differences between Australian Generally Accepted Accounting Principles (Australian GAAP) and AIFRS identified to date to have a significant impact on the Company's financial performance and financial position.

The Company has not yet completed its AIFRS transition project to assess the impact of adoption of AIFRS and is not in the position to quantify the effects of all the differences discussed below.

Any assessments made in respect of the transition to AIFRS may require adjustment before inclusion in the first complete annual/half year financial report prepared in accordance with AIFRS due to new or revised standards or interpretations, changes in the operations of the business, or additional guidance on the application of AIFRS in a particular industry or to a particular transaction.

The key potential implications of the conversion to AIFRS on the Company are as follows:

- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.
- Internally generated assets (other than development phase expenditure in certain circumstances) will not be recognised as assets. Start-up costs may not be capitalised. Research costs must be expensed.
- Equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.

directors' declaration

In the opinion of the directors of Biotron Limited:

(a) the financial statements and notes, set out on pages 14 to 27, are in accordance with the Corporations Act 2001, including:

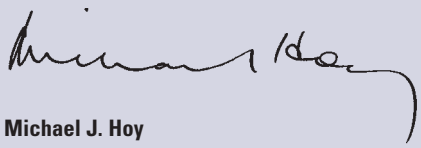
  (i) giving a true and fair view of the financial position of the Company as at 30 June 2005 and of its performance, as represented by the results of its operations and cash flows for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

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

(c) The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2005.

This report has been signed in accordance with a resolution of the directors and is dated 12 September 2005:



Michael J. Hoy
Director

Michelle Miller
Director

independent audit report to the members of Biotron Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 21 to the financial statements, and the directors' declaration for Biotron Limited for the year ended 30 June 2005.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit Opinion

In our opinion, the financial report of Biotron Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

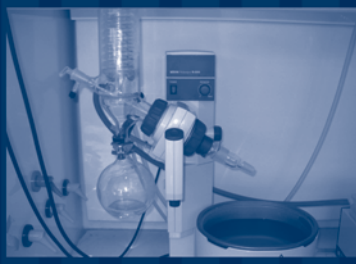
S. J. Board

S. J. Board
Partner

12 September 2005

Biotron

Level 8 • 261 George Street • Sydney NSW 2000 • Australia



CORPORATE DIRECTORY

Directors:

Mr Michael J. Hoy (Chairman)
Dr Michelle Miller (Managing Director)
Dr Michael S. Hirshorn
Mr Bruce Hundertmark
Mr Peter G. Scott

Company Secretary:

Mr Peter J. Nightingale

Registered Office:

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Phone: 61-2 9247 8212 Fax: 61-2 9247 3932
E-mail: enquiries@biotron.com.au
Homepage: www.biotron.com.au

Share Registrar:

Computershare Investor Services Pty Limited
Level 27, Central Plaza One, 345 Queen Street, BRISBANE QLD 4000
Phone: 61-7 3237 2100 Fax: 61-7 3229 9860

Auditors:

KPMG
Level 30, Central Plaza One, 345 Queen Street, BRISBANE QLD 4000

Home Exchange:

Australian Stock Exchange Limited
20 Bridge Street, SYDNEY NSW 2000

Solicitors:

Minter Ellison
88 Phillip Street, SYDNEY NSW 2000

Biotron Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.