

**BIOTRON LIMITED**

**A.B.N. 60 086 399 144**

**HALF YEAR  
FINANCIAL REPORT  
31 DECEMBER 2003**

# BIOTRON LIMITED

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# BIOTRON LIMITED

## DIRECTORS' REPORT

Your Directors have pleasure in submitting their report together with the financial report of Biotron Limited ('the Company') for the half year ended 31 December 2003 and the review report thereon.

### Directors

The names of the Directors of the Company in office during or since the end of the half year are:

***Mr Michael J. Hoy***  
***Chairman***

Mr Hoy has more than 30 years corporate experience in Australia, the United Kingdom, USA and Asia. He is Chairman of Cityprint Holding Pty Ltd and Motoron.com Pty Ltd. 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 experience 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 is a 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 has more than 35 years experience in medical research, including training medical researchers, particularly PhD students. For the past 25 years his research focus has 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 has been a Director since 23 February 1999.

***Dr Michael S. Hirshorn, MBA, MB, BS***  
***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 Polartech 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 Chief Executive of the St. George Innovation Fund which is run by the venture capital firm, Nanyang Ventures.

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

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## **Mr Bruce Hundertmark** **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.

## **Review of Operations**

The half year ended 31 December 2003 has seen a continued focus on commercial development of the two tier one projects under development at Biotron.

Significant events achieved in this half year period include:

- Discovery that drugs under development with the Virion program inhibit p7 ion channel activity associated with Hepatitis C virus.
- Discovery that the E protein of the SARS coronavirus and the M protein of dengue virus form ion channels and that drugs under development with the Virion program inhibit this ion channel activity.
- Award of a \$250,000 Biotechnology Innovation Fund (BIF) grant from the Australian Commonwealth Government to expedite development of the Virion technology for treatment of Hepatitis C virus, SARS coronavirus and dengue virus.
- Publication in the prestigious FEBS Letters journal of a paper describing research associated with the Hepatitis C p7 drug discovery program.

Subsequent to the end of the half year, the Company was offered an R&D Start Grant under the Commonwealth Government's R&D Start Program pursuant to which the Company will be granted up to \$1.66 million in dollar for dollar funding. The Company will receive grant funds in respect of R&D expenditure incurred by the Company back to 15 October 2003, the commencement date of the Start Grant.

## **Virion**

Biotron is deliberately focusing its efforts on commercial development of the two Tier 1 projects. Of these two projects, the Virion project is the most advanced, and has evolved over the last 12 months into a true platform technology. The Virion project is developing novel antiviral agents that will interact with a new class of target, virus ion channels. The scope of the Virion technology has expanded from HIV alone, to include a wide range of other viral diseases.

Under the HIV program, Biotron has designed, synthesized and tested additional novel analogues of the original BIT009 molecule for anti-Vpu activity, and the Company is currently undertaking a range of preclinical studies to identify the best candidate to take forward into clinical trials. It is essential that the best lead is selected, to maximise the chance of successfully passing through the rigorous safety testing that is required by regulatory authorities before the compound can be tested in human trials. Biotron is a long way down this selection process, having recently sent 6 of the best candidates to an international preclinical testing company, for preliminary testing. The results are very encouraging, in terms of the potential for the compounds to be good, druggable leads. Since the end of the half year, Biotron was awarded a Federal government Start grant of \$1.66 million, which will be used to expedite development of an HIV therapeutic through preclinical testing and a Phase I/IIa trial in humans.

## BIOTRON LIMITED

During the half year ended 31 December 2003, Biotron has demonstrated that the Virion technology has potential to treat viruses such as SARS coronavirus, Hepatitis C virus, Dengue virus, and a number of viruses that cause the common cold. Biotron scientists have designed several series of compounds that have now been shown to inhibit ion channel activity associated with the target viral proteins, and these compounds are now being assessed for antiviral activity against these viruses. Late in 2003 Biotron was awarded a Biotechnology Innovation Fund (BIF) grant of \$250,000 from the Federal government, which will enable the Company to speed up work on these new viral targets.

Biotron is focused on building a strong defensible wall of patents around the Company's intellectual property (IP), maximizing the value of the technology which will ensure Biotron is in the strongest competitive position. The Company is well advanced in putting the prerequisite building blocks in place, in terms of increasing the value of the technology to a potential partner. Biotron aims to take the Virion HIV technology through a Phase I/IIa clinical trial before partnering with an international pharmaceutical company. This strategy will result in vastly increased valuations for the technology.

### **C-Test**

As noted in the 30 June 2003 Annual Report, Biotron has been developing a faster and cheaper method of sample preparation for C-test. While C-Test has received a lower focus over recent months due to expansion of the Virion project into a platform technology with potential application for a wide range of viral disease targets, excellent progress has been made. The Company has developed a method of preparing blood samples for analysis that is more robust, readily adaptable for automation in a pathology laboratory, and more cost effective. Progress has also been made on the development of software for analysis of the samples into a more user-friendly interface.

Analysis of biomarkers in the blood for diagnosis of diseases such as cancer is receiving increased attention in the scientific and medical field. Biotron's technology is well placed to take advantage of this upsurge of interest internationally to benefit shareholders.

### **Tier Two Projects**

Limited resources are committed to the Tier 2 projects due to the Company's focus on commercial development of the Virion and C-test projects.

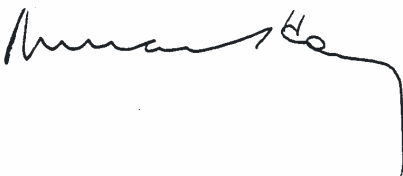
In the Muscion project, Biotron has identified peptides that have potential as drugs for treatment of damaged or failing heart muscle. Biotron scientists are designing small, synthetic versions or mimetics of these peptides, with the aim of producing small, cost effective compounds for advancement into preclinical and clinical development.

The Hypoxion project is focused on identifying compounds that prevent the symptoms of stroke and heart attack. Animal models of the diseases are being established.

The GeneTrans project has generated a novel cell line that will have utility in drug screening tests to check the safety of new pharmaceutical drugs.

The Gabion project is investigating compounds that act on the GABA receptor, which has been implicated in numerous neurological disorders.

This report has been signed in accordance with a resolution of the directors and is dated 26 February 2004:



Michael J. Hoy  
Director

# BIOTRON LIMITED

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR ENDED 31 DECEMBER 2003

	Note	31 December 2003 \$	31 December 2002 \$
Other revenues from ordinary activities		111,214	165,156
Total revenue		111,214	165,156
Administration and consultants' expenses		(267,413)	(209,229)
Depreciation		(81,717)	(102,638)
Direct research and development expenses		(677,743)	(483,185)
Employee and director expenses		(190,807)	(169,451)
Legal fees		(17,501)	(35,415)
Rent		(67,587)	(41,946)
Travel		(18,747)	(10,644)
Other expenses from ordinary activities		(111,563)	(114,451)
<b>Loss from ordinary activities before related income tax expense</b>		<b>(1,321,864)</b>	<b>(1,001,803)</b>
Income tax expense relating to ordinary activities		-	-
<b>Net Loss</b>	5	<b>(1,321,864)</b>	<b>(1,001,803)</b>
Basic loss per share	2	<b>(2.06) cents</b>	<b>(1.56) cents</b>
Diluted loss per share	2	<b>(2.06) cents</b>	<b>(1.56) cents</b>

# BIOTRON LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2003

	Note	31 December 2003 \$	30 June 2003 \$
<b>CURRENT ASSETS</b>			
Cash assets		3,990,692	5,375,413
Receivables		57,032	66,685
Inventories		62,468	65,511
Other		6,099	10,399
<b>Total Current Assets</b>		4,116,291	5,518,008
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		427,763	391,080
<b>Total Non-Current Assets</b>		427,763	391,080
<b>Total Assets</b>		4,544,054	5,909,088
<b>CURRENT LIABILITIES</b>			
Payables		91,434	132,844
Provisions		13,472	15,232
<b>Total Current Liabilities</b>		104,906	148,076
<b>Total Liabilities</b>		104,906	148,076
<b>Net Assets</b>		4,439,148	5,761,012
<b>EQUITY</b>			
Contributed equity	3	11,444,960	11,444,960
Reserves	4	110,850	110,850
Accumulated losses	5	(7,116,662)	(5,794,798)
<b>Total Equity</b>		4,439,148	5,761,012

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## STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2003

	Note	31 December 2003 \$	31 December 2002 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		6,000	-
Cash payments in the course of operations		(701,134)	(586,637)
Interest received		105,214	165,156
Payments for research and development		(677,743)	(483,185)
		<u>(1,267,663)</u>	<u>(904,666)</u>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(120,076)	(23,203)
Proceeds from sale of plant and equipment		3,018	-
		<u>(117,058)</u>	<u>(23,203)</u>
<b>Net decrease in cash held</b>		(1,384,721)	(927,869)
<b>Cash at the beginning of the financial period</b>		5,375,413	7,577,479
		<u>3,990,692</u>	<u>6,649,610</u>



# BIOTRON LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2003

### 1. BASIS OF PREPARATION

The half year financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 *Interim Financial Reporting*, the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half year financial report is to be read in conjunction with the 30 June 2003 Annual Financial Report and any public announcements by the Company during the half year in accordance with continuous disclosure obligations arising under 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 applied in the 30 June 2003 Annual Financial Report.

The half year report does not include full note disclosures of the type normally included in an annual financial report.

### 2. EARNINGS PER SHARE

Basic and diluted loss per share have been calculated using:

	31 December 2003 \$	31 December 2002 \$
Net loss for the half year	<u>1,321,864</u>	<u>1,001,803</u>
Weighted average number of ordinary shares	<u>64,055,750</u>	<u>64,055,750</u>

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.

### 3. CONTRIBUTED EQUITY

<b>Issued and paid up capital</b> 64,055,750 fully paid ordinary shares (30 June 2003 - 64,055,750)	<u>11,444,960</u>	<u>11,444,960</u>
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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.

#### Options

The following options were on issue at 31 December 2003, each exercisable to acquire one fully paid ordinary share:

- 900,000 (2002 - 900,000) exercisable at \$0.50 each at any time up to 30 September 2005.
- 250,000 (2002 - 250,000) exercisable at \$0.60 each at any time up to 14 January 2007.
- 500,000 (2002 - 500,000) exercisable at \$0.75 each at any time from 30 June 2003 to 14 January 2007.
- 500,000 (2002 - 500,000) exercisable at \$1.00 each at any time from 30 June 2004 to 14 January 2007.

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	31 December 2003 \$	31 December 2002 \$
<b>4. RESERVES</b>		
Option premium reserve	<u>110,850</u>	<u>110,850</u>
This reserve represents the fair value, at the date of issue, of options on issue.		
<b>5. ACCUMULATED LOSSES</b>		
Accumulated losses at the beginning of the period	5,794,798	3,066,097
Net loss attributable to members of the Company	<u>1,321,864</u>	<u>1,001,803</u>
Accumulated losses at the end of the period	<u>7,116,662</u>	<u>4,067,900</u>

### 6. FINANCIAL REPORTING BY SEGMENTS

The Company operates in the biotechnology industry in Australia.

### 7. POST BALANCE DATE EVENT

Subsequent to the end of the half year ended 31 December 2003 the Company was offered an R&D Start Grant under the Commonwealth Government's R&D Start Program pursuant to which the Company will be granted up to \$1.66 million in dollar for dollar funding. The Company will receive grant funds in respect of R&D expenditure incurred by the Company back to 15 October 2003, the commencement date of the Start Grant.

As the Company's accounting policy is to recognise research and development grants as revenue when received, the financial effect of being offered the Start Grant has not been brought to account at 31 December 2003.

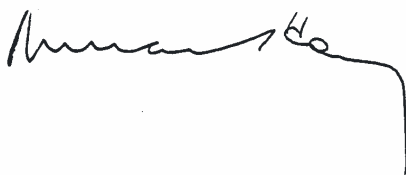
# BIOTRON LIMITED

## DIRECTORS' DECLARATION

In the opinion of the directors of Biotron Limited:

- (a) the financial statements and notes, set out on pages 4 to 8, 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 31 December 2003 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" 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.

This report has been signed in accordance with a resolution of the directors and is dated 26 February 2004:

A handwritten signature in black ink, appearing to read 'Michael J. Hoy', with a long horizontal stroke extending to the right and a vertical line dropping down from the end.

Michael J. Hoy  
Director

## INDEPENDENT REVIEW REPORT TO THE MEMBERS OF BIOTRON LIMITED

### Scope

We have reviewed the financial report of Biotron Limited ("the Company") for the half year ended 31 December 2003, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 7 and the directors' declaration. The Company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to enquiries of Company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter which makes us believe that the half year financial report of Biotron Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's financial position as at 31 December 2003 and of its performance for the half year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



KPMG



S.J. Board  
Partner

Brisbane  
26 February 2004

# BIOTRON LIMITED

## CORPORATE DIRECTORY

### Directors:

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

### Company Secretary:

Mr Peter J. Nightingale

### Registered Office:

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SYDNEY NSW 2000  
Phone: 61-2 9247 8212  
Fax: 61-2 9247 3932  
E-mail: enquiries@biotron.com.au  
Homepage: www.biotron.com.au

### Research Facilities:

Innovations Building  
Eggleston Road  
Australian National University  
CANBERRA ACT 2601  
Phone: 61-2 6125 8001  
Fax: 61-2 6125 8070

### 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.