



Annual Report 2006
ABN 66 006 522 970

COMPANY INFORMATION

Directors

Dr Graeme L Blackman
BSc(Hons), PhD, FRACI, FTSE
(Chairman and Managing Director)

Alan D Blackman
BA(Hons), LLB(Hons)

Robert Burnet
BA, MBA, MATEM, FPSA(Hon)

Richard R Green
BCom, CPA, ASIA

Geoffrey F Lord
BEco(Hons), MBA(Distn), ASSA, AICD

Dr Geoffrey N Vaughan
AO, MSc, PhD, FRACI, FTSE

Secretary

Adrian McKenzie
BBus, Grad.Dip.CSP, ICAA.

Share Register

ComputerShare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067

Bankers

National Australia Bank Limited
3/330 Collins Street
MELBOURNE VIC 3000

Auditors

RSM Bird Cameron Partners
Level 8
Rialto South Tower
525 Collins Street
MELBOURNE VIC 3000

Stock Exchange

Australian Stock Exchange Limited
530 Collins Street
MELBOURNE VIC 3000

Website Address

www.idtaus.com.au
www.cmax.com.au

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Notice of Annual General Meeting

The Annual General Meeting of IDT Australia Limited will be held at 45 Wadhurst Drive, Boronia, on 27 October 2006 at 10.00am.

I am pleased to report to shareholders on the performance of Institute of Drug Technology Australia Limited for the year ended 30 June 2006. Revenue for the year was \$25 million and profit after tax was \$3.6 million. Based on AIFRS accounts for 2005 and 2006, this represents a pleasing after tax profit increase of 8%. Despite a difficult first half year, a record second half combined with a positive outlook for the company has encouraged the Directors to hold the full year total dividend at 8 cents. Accordingly, a fully franked final dividend of 4.5 cents per share has been declared and will be paid on 20 October 2006. EBIT margin for the year ended 30 June 2006 was 20.4%, up from 19.9% at the previous year end.

The return of the company to a strong growth profile has been driven by a combination of positive factors. These include increased finished product manufacturing, notably our manufacturing for Celgene Corporation in the USA, increased fee for service drug development activity, particularly with the attraction of new significant projects from both long term and new clients in the USA and increased clinical trial activity within our Adelaide based CMAX unit, with clients from the USA and Europe making up the bulk of revenue in this area.

The manufacture of selected high potency active pharmaceutical ingredients (APIs) continues within the company, but the emphasis has shifted towards a fee for service based activity as companies seek high quality reliable suppliers for their more difficult API development and supply projects. The generic API business, which in previous years had provided the major component of IDT's revenues and profits, will contribute around 10% of the company's activity in the 2006 to 2007 year.

The company's strategy to turn to finished product development and manufacture is commencing to deliver good returns and outstanding opportunities for the business. The emphasis of this initiative is to leverage the company's considerable expertise in high potency drug containment to develop a new business in the development and manufacture of finished pharmaceutical products. These products are typically capsules or tablets.

In the same way that APIs require international regulatory approval for sale, these finished products also need to be processed through an extensive regulatory review system, notably by the US Food and Drug Administration, prior to commercialisation. To date, the company has achieved its first regulatory approval for a finished product with the June 2005 announcement by IDT of the approval of thalidomide on behalf of Celgene Corporation. We expect to be in a position to commence filing for regulatory approvals in conjunction with other international clients in the coming years.

The upside for this business initiative is that the company is entering into long term supply agreements for these products which, subject to necessary regulatory approvals and appropriate marketing activity by our commercial partners, is expected to contribute to strong growth for the company over the next five years.

New clients continue to be attracted to our CMAX unit. During the year, we have experienced a trend towards larger, more complex and longer studies requested by our clients. The CMAX business unit has been restructured to allow cost efficient management of these complex clinical trials. Repeat business from existing clients also tends to be a characteristic of the unit, confirming the quality of studies performed at CMAX.

As mentioned in previous announcements, the company has embarked on a program of capital investment to satisfy the needs of the business into the future. New manufacturing and development plants to handle our new activities are being designed and installed at our Boronia location. Expenditure of \$1.9 million occurred during the year ended June 2006 and the current year is expected to see investment of \$4 million in new plant and equipment.

The Board is confident that with the new directions for the company, strong growth as foreshadowed in earlier announcements can be expected in the next year and future years.

I again take this opportunity to thank the board, management and staff of the company for an outstanding commitment to the company during the past year and look forward to their ongoing work in the future.

Dr Graeme L Blackman

Chairman and Managing Director

Report of the Directors - 30 June 2006

Your directors present their report on the financial statements of the company for the year ended 30 June 2006.

The following persons were directors of Institute of Drug Technology Australia Limited during the whole of the financial year and up to the date of this report:

| | |
|-------------------------|-------------|
| G L Blackman (Chairman) | R R Green |
| A D Blackman | G F Lord |
| R Burnet | G N Vaughan |

Principal Activities

The principal activities of the company in the course of the year were the supply of products and provision of research and development and other technical services for the pharmaceutical and allied industries.

Results

The net result of operations after applicable income tax expense was a profit of \$3,613,000 (2005: \$3,339,000).

Dividends

Dividends paid to members during the financial year were as follows:

| | 2006 | 2005 |
|---|---------------|--------|
| | \$'000 | \$'000 |
| Final ordinary dividend for the year ended 30 June 2005 of 4.5 cents (2004 - 4 cents) per fully paid share paid on 21 October 2005 | 1,930 | 1,712 |
| Interim ordinary dividend for the year ended 30 June 2006 of 3.5 cents (2005 - 3.5 cents) per fully paid share paid on 26 May 2006 | 1,500 | 1,498 |
| | 3,430 | 3,210 |

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of \$1,932,000 (4.5 cents per fully paid share) to be paid on 20 October 2006 out of retained profits at 30 June 2006.

Review of Operations

During the year, the company continued to provide consulting research and development services and products for clients in the pharmaceutical and allied industries. A detailed review is given on page 2 of this annual report.

Matters Subsequent to the End of the Financial Year

There was at the date of this report no matter or circumstance which has arisen since 30 June 2006 that has significantly affected or may significantly affect:

- (a) the operations of the company;
- (b) the results of those operations; or
- (c) the state of affairs of the company;

in the periods subsequent to 30 June 2006.

Likely Developments

In the opinion of the directors, disclosure of additional information to that reported in this Report of the Directors regarding likely developments in the operations of the company and the expected results of those operations in subsequent financial years would unreasonably prejudice the interests of the company. Accordingly, this information has not been included in this report.

Environmental Regulations

The company is subject to environmental controls in relation to its manufacturing operations. These include obligations to comply with provisions of the Environment Protection Act and a Trade Waste Agreement with South East Water. The company is also subject to environmental audits by local and international clients. At the date of this report, the company has not been found to be in breach of any of its environmental obligations.

Insurance of Officers

During the financial year, the company has paid an insurance premium insuring all officers of the company. The officers of the company include the directors. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company. The insurance premium paid during the financial year was \$10,861.

Share Options

Unissued ordinary shares of Institute of Drug Technology Australia Limited under option at the date of this report are:

| Date Options Granted | Expiry Date | Issue Price of Shares | Number of Options |
|----------------------|-------------------|-----------------------|-------------------|
| 28 September 2004 | 28 September 2008 | \$2.77 | 400,000 |
| 2 November 2004 | 2 November 2008 | \$2.85 | 1,200,000 |
| | | | 1,600,000 |

The names of all persons who currently hold options granted under the Executive Share Option Plan are kept in the register pursuant to Section 216C of the Corporations Act 2001 and the register may be inspected free of charge.

There were no options granted or exercised under the Executive Share Option Plan during the year ended 30 June 2006.

Significant Changes in the State of Affairs

In the opinion of the directors, there have been no significant changes in the state of affairs of the company during the financial year under review not otherwise disclosed in this report or the financial statements.

Meetings of Directors

The following table sets out the number of meetings of the company's directors held during the year ended 30 June 2006, and the number of meetings attended by each director.

| Director | Board | | Audit Committee | | Remuneration Committee | | Nomination Committee | |
|--------------|-------|----|-----------------|---|------------------------|---|----------------------|---|
| | A | B | A | B | A | B | A | B |
| G L Blackman | 11 | 11 | | | | | | |
| A D Blackman | 11 | 11 | 2 | 2 | | | 2 | 2 |
| R Burnet | 11 | 11 | 2 | 2 | 1 | 1 | | |
| R R Green | 11 | 11 | 2 | 2 | 1 | 1 | | |
| G F Lord | 11 | 11 | | | 1 | 1 | 2 | 2 |
| G N Vaughan | 11 | 11 | | | | | 2 | 2 |

A = Meetings held while a director or member.

B = Meetings attended while a director or member.

Information on Directors**DR GRAEME L BLACKMAN Age 60****Qualifications:** BSc(Hons), PhD, FRACI, FTSE**Experience:** Formerly Professor of Pharmaceutical Chemistry, Victorian College of Pharmacy. Extensive experience in research and development and commercial scientific consulting.**Other Current Directorships:** None**Former Directorships in Last 3 Years:** Non executive director of Virax Limited from 1996 to 2003.**Responsibilities:** Chairman of the Board and Managing Director since 1986.**Particulars of equity interests in company:**
5,830,313 fully paid ordinary shares
200,000 options**ALAN D BLACKMAN Age 58****Qualifications:** BA(Hons), LLB(Hons)**Experience:** Practising lawyer with considerable experience in corporate and commercial law.**Other Current Directorships:** None**Former Directorships in Last 3 Years:** None**Responsibilities:** Non executive director since 1986. Member of Nomination and Audit Committees**Particulars of equity interests in company:**
129,600 fully paid ordinary shares
200,000 options**ROBERT BURNET Age 63****Qualifications:** BA, MBA, MATEM, FPSA(Hon)**Experience:** Formerly director of Clayton and Berwick Campus, Monash University. Experienced in academic administration generally and the administration of pharmaceutical teaching and research in particular.**Other Current Directorships:** None**Former Directorships in Last 3 Years:** None**Responsibilities:** Non executive director since 1986. Member of Audit and Remuneration Committees.**Particulars of equity interests in company:**
262,000 fully paid ordinary shares (direct)
155,400 fully paid ordinary shares (indirect)
200,000 options**RICHARD R GREEN Age 67****Qualifications:** BCom, CPA, ASIA**Experience:** Considerable experience in the promotion and development of small public companies.**Other Current Directorships:** Chairman of Dromana Estate Limited (director since 2001). Chairman of Queensland Trustees and Investments Limited (since 1996).**Former Directorships in Last 3 Years:** None**Responsibilities:** Non executive director since 1986. Member of Audit and Remuneration Committees.**Particulars of equity interests in company:**
512,202 fully paid ordinary shares (indirect)
200,000 options

GEOFFREY F LORD Age 60

Qualifications: BEco(Hons), MBA(Distn), ASSA, AICD

Experience: Formerly Chief Executive and Deputy Chairman of Elders Resources Limited.

Other Current Directorships: Presently Chairman and Chief Executive of Belgravia Group Pty Ltd. Executive Chairman of UXC Limited (since 2002), Chairman of Australian Litigation Fund and Melbourne Victory Limited (since 2004), Non-executive Director of Auto Group Limited (director since 1999), Ausmelt Limited (director since 2001), Adellhill Limited (director since 1993), KLM Limited (director since 2006), Maxitrans Industries Limited (director since 2000) and Triako Resources Limited (director since 2000).

Former Directorships in Last 3 Years: Chairman of Terrain Australia from 2003-2006.

Responsibilities: Non executive director since 1998. Member of Nomination and Remuneration Committees.

Particulars of equity interests in company: 6,436,526 fully paid ordinary shares (indirect)
200,000 options

DR GEOFFREY N VAUGHAN Age 73

Qualifications: AO, MSc, PhD, FRACI, FTSE

Experience: Formerly National Manager of the Therapeutic Goods Administration. Former Chairman of the Co-operative Research Centres Committee, Member of Industry Research and Development Board of the Department of Industry, Tourism & Resources and Councillor of Questacon, the National Science and Technology Centre.

Other Current Directorships: Non-executive director of Cytopia Limited since 1998.

Former Directorships in Last 3 Years: Non-executive director of Bresagen Limited from 1999 - 2003.

Responsibilities: Non executive director since 1997. Member of Nomination Committee.

Particulars of equity interests in company: 304,400 fully paid ordinary shares
200,000 options

COMPANY SECRETARY

The Company Secretary is Mr Adrian McKenzie. Mr McKenzie was appointed to the position of Company Secretary in 2005. Mr McKenzie has held the position of Finance Manager at Institute of Drug Technology Australia Limited since 1999.

Remuneration Report

The remuneration committee, consisting of 3 non-executive directors, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, non-executive directors and senior executives.

Directors' Remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Board. The Board also considers the advice of independent remuneration consultants and comparable companies to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman and Managing Director's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman and Managing Director is not present at any discussions relating to the determination of his own remuneration.

Directors' Fees

The current base remuneration has been in place for a number of years, and effective 1 July 2004 the non-executive directors' annual base fee increased to \$20,000 from \$12,000. The Chairman and Managing Director's remuneration was last reviewed with effect from 1 January 2006.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum aggregate directors' fee pool currently is \$200,000 for non-executive directors.

Details of the nature and amount of each element of the emoluments of each director of Institute of Drug Technology Australia Limited and each of the five executives of the company receiving the highest emoluments are set out in the following tables.

Non-Executive Directors of Institute of Drug Technology Australia Limited

2006

| Name | Directors' Base Fee \$ | Superannuation \$ | Total \$ |
|--------------|---------------------------|----------------------|-------------|
| A D Blackman | 20,000 | 1,800 | 21,800 |
| R Burnet | 20,000 | 1,800 | 21,800 |
| R R Green | 20,000 | 1,800 | 21,800 |
| G F Lord | 20,000 | - | 20,000 |
| G N Vaughan | 20,000 | 1,800 | 21,800 |

2005

| Name | Directors' Base Fee \$ | Superannuation \$ | Options \$ | Total \$ |
|--------------|---------------------------|----------------------|---------------|-------------|
| A D Blackman | 20,000 | 1,800 | 121,634 | 143,434 |
| R Burnet | 20,000 | 1,800 | 121,634 | 143,434 |
| R R Green | 20,000 | 1,800 | 121,634 | 143,434 |
| G F Lord | 20,000 | - | 121,634 | 141,634 |
| G N Vaughan | 20,000 | 1,800 | 121,634 | 143,434 |

Executives

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the company's operations and achieving the company's strategic objectives.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, discretionary bonuses and fringe benefits. Executives are also eligible to participate in the Executive Share Option plan. There are no service agreements or special terms of employment for executives of Institute of Drug Technology Australia Limited.

Executive Directors of Institute of Drug Technology Australia Limited

2006

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|--|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| G L Blackman Chairman and Managing Director | 413,499 | 10,800 | 164,017 | - | 588,316 |

2005

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|--|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| G L Blackman Chairman and Managing Director | 411,883 | 10,800 | 168,735 | 121,634 | 713,052 |

Five Highest Remunerated Executives of Institute of Drug Technology Australia Limited

2006

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|---|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| R Elliott General Manager | 314,250 | 45,927 | 31,605 | 1,000 | 392,782 |
| R Woods R&D Manager | 132,750 | 59,840 | 14,656 | 1,000 | 208,246 |
| A McKenzie Manager, Finance & Administration | 170,375 | 23,305 | 7,070 | 1,000 | 201,750 |
| J Kelly Clinical Operations Manager | 132,696 | 11,875 | 6,698 | 1,000 | 152,269 |
| P Elliott Quality Manager | 145,704 | 13,046 | - | 1,000 | 159,750 |

2005

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|---|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| R Elliott General Manager | 268,519 | 37,540 | 72,806 | 34,547 | 413,412 |
| R Woods R&D Manager | 124,460 | 56,094 | 36,403 | 14,656 | 231,613 |
| A McKenzie Manager, Finance & Administration | 150,400 | 13,472 | 60,672 | 10,276 | 234,820 |
| C Rogers Clinical Operations Manager | 140,195 | 12,553 | 55,764 | 15,136 | 223,648 |
| P Elliott Quality Manager | 115,710 | 10,350 | 12,134 | - | 138,194 |

Share-based Compensation

Options are granted under the Institute of Drug Technology Executive Option Plan terms and conditions.

Options are granted under the plan for no consideration. Options are granted for a four year period, and vest immediately upon granting.

The terms and conditions of each grant of options affecting remuneration for the 2005 financial year are as follows:

| Grant Date | Expiry Date | Exercise Price | Value per Option at Grant Date | Share Price at Grant Date |
|-------------------|-------------------|----------------|--------------------------------|---------------------------|
| 28 September 2004 | 28 September 2008 | \$2.77 | \$0.60 | \$2.45 |
| 2 November 2004 | 2 November 2008 | \$2.85 | \$0.60 | \$2.47 |
| 23 June 2005 | 23 June 2009 | \$2.08 | \$0.38 | \$1.76 |

There were no options issued in the 2006 financial year.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted or at a premium to this price as the Directors may determine.

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to executive directors and other executives, allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2005 included:

| Grant Date | Expiry Date | Exercise Price | Expected Price Volatility | Expected Dividend Yield | Risk Free Rate |
|-------------------|-------------------|----------------|---------------------------|-------------------------|----------------|
| 28 September 2004 | 28 September 2008 | \$2.77 | 39.70% | 3.28% | 5.64% |
| 2 November 2004 | 2 November 2008 | \$2.85 | 38.32% | 3.03% | 5.23% |
| 23 June 2005 | 23 June 2009 | \$2.08 | 35.62% | 3.65% | 5.23% |

The number of unlisted options in the company held during the financial year by each director of Institute of Drug Technology Australia Limited and each of the five most highly remunerated Executive officers are set out below.

2006**Directors**

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of Year |
|--------------|--------------------------|-------------------------|------------------------|----------------------------|
| A D Blackman | 200,000 | - | - | 200,000 |
| R Burnet | 200,000 | - | - | 200,000 |
| R R Green | 200,000 | - | - | 200,000 |
| G F Lord | 200,000 | - | - | 200,000 |
| G N Vaughan | 200,000 | - | - | 200,000 |

Executive Director

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of Year |
|--------------|--------------------------|-------------------------|------------------------|----------------------------|
| G L Blackman | 200,000 | - | - | 200,000 |

Executives

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of Year |
|-------------|---------------------------------|--------------------------------|-------------------------------|-----------------------------------|
| R Elliott | 280,000 | - | 80,000 | 200,000 |
| R Woods | 200,000 | - | 70,000 | 130,000 |
| A McKenzie | 260,000 | - | 80,000 | 180,000 |
| J Kelly | 20,000 | - | - | 20,000 |
| P Elliott | 90,000 | - | - | 90,000 |

2005

Directors

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of Year |
|--------------|---------------------------------|--------------------------------|-------------------------------|-----------------------------------|
| A D Blackman | - | 200,000 | - | 200,000 |
| R Burnet | - | 200,000 | - | 200,000 |
| R R Green | - | 200,000 | - | 200,000 |
| G F Lord | - | 200,000 | - | 200,000 |
| G N Vaughan | - | 200,000 | - | 200,000 |

Executive Director

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of Year |
|--------------|---------------------------------|--------------------------------|-------------------------------|-----------------------------------|
| G L Blackman | - | 200,000 | - | 200,000 |

Executives

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of Year |
|-------------|---------------------------------|--------------------------------|-------------------------------|-----------------------------------|
| R Elliott | 160,000 | 120,000 | - | 280,000 |
| R Woods | 140,000 | 60,000 | - | 200,000 |
| A McKenzie | 160,000 | 100,000 | - | 260,000 |
| C Rogers | 140,000 | 110,000 | - | 250,000 |
| P Elliott | 70,000 | 20,000 | - | 90,000 |

Non-Audit Services

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

Details of the amounts paid to the auditor (RSM Bird Cameron Partners) for audit and non-audit services provided during the year are set out below.

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

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

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 12.

The company appointed RSM Bird Cameron Partners as Company Auditor for the financial year ended 30 June 2006.

Auditors Remuneration

Total amounts receivable by RSM Bird Cameron Partners for:

| | 2006 | 2005 |
|--|----------------------|----------|
| | \$ | \$ |
| (a) Audit and review of the company's financial statements | 52,000 | - |
| (b) Other Services | - | - |
| | <u>52,000</u> | <u>-</u> |

Total amounts receivable by PriceWaterhouseCoopers for:

| | 2006 | 2005 |
|--|-------------|---------------|
| | \$ | \$ |
| (a) Audit and review of the company's financial statements | - | 76,330 |
| (b) Other Services | - | - |
| | <u>-</u> | <u>76,330</u> |

Proceedings on Behalf of the Company

No persons has applied to the court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purposes of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the court under Section 237 of the Corporations Act 2001.

Rounding of Amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors report. Amounts in the directors report have been rounded off in accordance with the Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed at Melbourne this 18 day of September 2006, in accordance with a resolution of the directors.



Graeme L Blackman
Director



Robert Burnet
Director

RSM Bird Cameron Partners

Chartered Accountants

Level 8 Rialto South Tower
525 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West Melbourne VIC 8007
T +61 3 9286 1800 F +61 3 9286 1999
www.rsmi.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial statements of Institute of Drug Technology Australia Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- i. the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.



RSM BIRD CAMERON PARTNERS

Chartered Accountants



P A RANSOM

Partner

18 September, 2006
Melbourne

Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.



The directors are responsible to the shareholders for the performance of the company in both the short and the longer term and seek to balance these sometime competing objectives in the best interests of the company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the company is properly managed. The Board draws on relevant corporate governance best practice principles to assist it to contribute to the performance of the company.

The functions of the Board include:

- review and approval of corporate strategies, the annual budget and financial plans
- overseeing and monitoring organisational performance and the achievement of the company's strategic goals and objectives
- monitoring financial performance including approval of the annual and half-yearly financial reports and liaison with the company's auditors
- appointment of, and assessment of the performance of, the Managing Director and the members of the senior management team
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- ensuring the significant risks facing the company have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place, and
- reporting to shareholders.

A description of the company's main corporate governance practices is set out below.

The Board of Directors

The Board operates in accordance with the following broad principles that:

- the Board should be comprised of both executive and non-executive directors with a majority of non-executive directors
- At the date of signing the Report of Directors, the Board consisted of five non-executive directors and one executive director. Details about the directors are set out in the directors' report under the heading "Information on Directors".
- there is sufficient benefit to the company in maintaining a mix of directors on the Board from different backgrounds with complementary skills and experience
 - the Board should undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the company

The Board has established three committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the nomination, remuneration and audit committees. Each is comprised entirely of non-executive directors. All matters determined by committees are submitted to the full Board as recommendations for Board decision.

Board Members

Details of the members of the board, their experience, expertise and qualifications are set out in the directors' report under the heading "Information on Directors". There are five non-executive directors, four of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report.

Potential new directors are considered and nominated by the nomination committee based on the skills and experience they could bring to board deliberations on current and emerging issues. Details of the nomination committee are set out below.

Directors' Independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- within the last three years not been employed in an executive capacity by the company, or been a director after ceasing to hold any such employment
- within the last three years not been a principal of a material professional adviser or a material consultant to the company, or an employee materially associated with the service provided
- not a material supplier or customer of the company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the company other than as a director of the company

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the company or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance. In line with the directors' independence policy, Mr Geoffrey Lord's substantial indirect shareholdings means that the board deem him to be not an independent director.

Recent thinking on corporate governance has introduced the view that a director's independence may be perceived to be impacted by length of service on the board. The board is aware that there are suggestions and various views that directors would be deemed to be not independent if they have served on the board for a lengthy period of time. The board considers that it is fortunate to have a number of long serving directors who have contributed significantly to the company over the years. As our shareholders have regularly re-elected these directors, the board does not currently consider length of service to be an impairment to independence. The nomination committee will continue to consider this matter of independence of directors and recommend to the board any future changes that they should consider in relation to composition and appointments of suitable candidates.

Term of Office

The company's Constitution specifies that one-third of directors (with the exception of the Managing Director) must retire from office at the annual general meeting.

Chairman and Managing Director

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives. The board is aware of the Australian Stock Exchange (ASX) corporate governance recommendation that the roles of Chairman and Managing Director should not be exercised by the same individual.

Dr Graeme Blackman has held these joint roles for a number of years at IDT successfully. The board has considered the recommendation but does not consider that the dual roles should be split currently and force a change upon the company which is not in the best interests of the company. The nomination committee will keep this matter under review and recommend to the board any proposed changes or succession planning that they believe the board should consider.

Commitment

The Board meets approximately monthly throughout the year, with the majority of those meetings being held on site at the company. A full tour of the facilities is incorporated annually for all directors.

Independent Professional Advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Conflict of Interests

Entities connected with Dr G N Vaughan had business dealings with the company during the year, as described in note 28 to the financial statements. In accordance with the board charter the director concerned declared his interest in those dealings to the company and took no part in decisions relating to them or the preceding discussions. In addition, those directors did not receive any papers from the company pertaining to those dealings.

Remuneration Committee

The remuneration committee consists of the following non-executive directors:

- Mr R Burnet
- Mr R R Green
- Mr G F Lord

The remuneration committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors and non-executive directors.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Executive Option Plan.

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the company's operations and achieving the company's strategic objectives.

The remuneration committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the Corporations Law and are appropriately disclosed.

Further information on directors' and executives' remuneration is set out in the directors' report and note 25 to the financial statements.

Nomination Committee

The nomination committee consists of the following non-executive directors:

- Dr G N Vaughan
- Mr G F Lord
- Mr A D Blackman

Details of these directors' qualifications, experience and attendance at nomination committee meetings are set out in the directors' report.

The main responsibilities of the committee are to:

- conduct an annual review of the membership of the board having regard to present and future needs of the company and to make recommendations on board composition and appointments
- conduct an annual review of the independence of directors
- propose candidates for board vacancies
- oversee the annual performance assessment program
- oversee board succession

When the need for a new director is identified or an existing director is required to stand for re-election, the committee reviews the range of skills, experience and expertise on the board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

The full board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the company. Reappointment of existing directors is not automatic and is contingent on their past performance and contribution to the company.

Audit Committee

The audit committee consists of the following non-executive directors:

- Mr R R Green
- Mr R Burnet
- Mr A D Blackman

The main responsibilities of the audit committee are to:

- review and report to the Board on the annual report, the half-yearly financial report and all other financial information published by the company or released to the market
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework, and
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit.

In fulfilling its responsibilities, the audit committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year - more frequently if necessary. The external auditors have a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Corporate Reporting

The Managing Director and Finance Manager have made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and are in accordance with relevant accounting standards.
- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

External Audits

The company and audit committee policy is to appoint external auditors who demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. RSM Bird Cameron Partners was appointed as the auditor in 2005. It is RSM Bird Cameron Partners policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 23 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk Assessment and Management

The company's focus on risk management recognises that risk management is, prima facie, an issue for line management. The current risk management framework supports this focus but provides a structured context for those personnel to undertake a yearly review of the past performance of, and to profile the current and future risks facing, their area of responsibility. Management are required to ensure that appropriate controls are in place to effectively manage those risks. This is monitored by the Board through the audit committee, which is responsible for ensuring there are adequate procedures in relation to risk management, compliance and internal control systems. In summary, the company's management are required to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives. In addition, the board requires that each major proposal submitted to the board for decision be accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

The Environment, Occupational Health and Safety

The company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the company has regular monitoring to facilitate the systematic identification of environmental issues and a formal committee meets monthly to review and discuss relevant health and safety issues. This system has been operating for a number of years and allows the company to:

- monitor its compliance with all relevant legislation
- continually assess and improve the impact of its operations on the environment
- encourage employees to actively participate in the management of environmental and OH&S issues
- work with trade associations representing the company's businesses to raise standards, and
- use energy and other resources efficiently.

Information on compliance with significant environmental regulations is set out in the directors' report.

Trading in Company Securities

The directors and staff are normally only able to buy or sell shares in the four weeks following the announcement of the Company's interim financial report or following the announcement of the Company's final financial report or following the Company's Annual General Meeting. A director or staff member wishing to buy or sell shares outside the above four week periods, will advise the Chairman of his/her intention and obtain the Chairman's approval or, in the case of the Chairman, the approval of the Chair of the Company's Audit Committee.

Continuous Disclosure

The Managing Director has been appointed as the person responsible for communications with the ASX. This person is also responsible for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's web site as soon as it is disclosed to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

Income Statement

| | Note | 2006 \$'000 | 2005 \$'000 |
|---|------|----------------|----------------|
| Revenue from continuing operations | 2 | 25,026 | 26,933 |
| Raw materials and consumables used | | 2,017 | 2,536 |
| Employee benefits expense | | 10,051 | 10,936 |
| Depreciation and amortisation expense | | 2,128 | 2,278 |
| Borrowing costs expense | | 109 | 141 |
| Utilities | | 661 | 631 |
| Repairs and maintenance | | 458 | 486 |
| Subject and Screenings | | 1,398 | 1,269 |
| Insurance | | 415 | 458 |
| Waste Removal | | 150 | 159 |
| Consumables | | 352 | 434 |
| Research and Development | | 12 | 50 |
| Travel | | 188 | 157 |
| Share Registry | | 36 | 55 |
| Accounting | | 85 | 54 |
| Legal Fees | | 14 | 35 |
| Other expenses | | 1,937 | 2,035 |
| Profit before income tax | | 5,015 | 5,219 |
| Income tax expense | 4 | 1,402 | 1,880 |
| Profit attributable to members of Institute of Drug Technology Australia Limited | | 3,613 | 3,339 |
| Basic earnings per share | 30 | 8.4¢ | 7.8¢ |
| Diluted earnings per share | 30 | 8.4¢ | 7.8¢ |

The above Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet

| | Note | 2006 \$'000 | 2005 \$'000 |
|--------------------------------------|------|----------------|----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5 | 367 | 2,236 |
| Trade and other receivables | 6 | 9,792 | 9,158 |
| Inventories | 7 | 1,147 | 1,581 |
| Deferred tax assets | 8 | 468 | 430 |
| Total Current Assets | | 11,774 | 13,405 |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 22,121 | 22,081 |
| Intangible Assets | 10 | 1,481 | 750 |
| Total Non Current Assets | | 23,602 | 22,831 |
| Total Assets | | 35,376 | 36,236 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 11 | 2,149 | 2,593 |
| Borrowings | 12 | 582 | 596 |
| Current tax liabilities | 13 | 253 | 805 |
| Total Current Liabilities | | 2,984 | 3,994 |
| Non Current Liabilities | | | |
| Borrowings | 14 | 975 | 1,463 |
| Deferred tax liabilities | 15 | 1,830 | 1,607 |
| Provisions | 16 | 895 | 755 |
| Total Non Current Liabilities | | 3,700 | 3,825 |
| Total Liabilities | | 6,684 | 7,819 |
| Net Assets | | 28,692 | 28,417 |
| EQUITY | | | |
| Contributed equity | 17 | 15,384 | 15,385 |
| Reserves | 18 | 1,223 | 1,130 |
| Retained profits | 19 | 12,085 | 11,902 |
| Total Equity | | 28,692 | 28,417 |

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement Of Changes In Equity

| | Note | 2006 \$'000 | 2005 \$'000 |
|---|------|----------------|----------------|
| Total Equity at the Beginning of the Year | | 28,417 | 27,159 |
| Capital raising costs | 17 | (1) | (1) |
| Share based payment | 18 | 93 | 77 |
| Employee share options | 18 | - | 1,053 |
| | | 92 | 1,129 |
| Net Expense Recognised Directly in Equity | | | |
| Profit for the year | | 3,613 | 3,339 |
| Total Recognised Income and Expense for the Year | | 3,705 | 4,468 |
| Dividend | 21 | (3,430) | (3,210) |
| Total Equity at the End of the Year | | 28,692 | 28,417 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

| | Note | 2006 \$'000 | 2005 \$'000 |
|---|------|----------------|----------------|
| Cash Flows From Operating Activities | | | |
| Receipts from customers (inclusive of goods and services tax) | | 28,449 | 32,854 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (21,700) | (26,598) |
| | | 6,749 | 6,256 |
| Interest received | | 88 | 191 |
| Interest and other costs of finance paid | | (109) | (141) |
| Income taxes paid | | (1,769) | (1,259) |
| Net Cash Inflow From Operating Activities | 29 | 4,959 | 5,047 |
| Cash Flows From Investing Activities | | | |
| Payments for property, plant and equipment | | (1,944) | (2,952) |
| Proceeds from sale of property, plant and equipment | | 26 | 83 |
| Payments for research and development costs | | (882) | (168) |
| Net Cash Outflow From Investing Activities | | (2,800) | (3,037) |
| Cash Flows From Financing Activities | | | |
| Repayment of borrowings | | (558) | (558) |
| Dividends paid | | (3,430) | (3,210) |
| Repayment of lease liabilities | | (40) | (59) |
| Net Cash Outflow From Financing Activities | | (4,028) | (3,827) |
| Net (Decrease) In Cash And Cash Equivalents Held | | (1,869) | (1,817) |
| Cash and cash equivalents at the beginning of the financial year | | 2,236 | 4,053 |
| Cash And Cash Equivalents At The End Of The Financial Year | 5 | 367 | 2,236 |
| Financing arrangements | 14 | | |

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of Preparation of Financial Report

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

These are the first Institute of Drug Technology Australia Limited financial statements to be prepared in accordance with AIFRS. Compliance with AIFRS ensures that the financial statements and notes of Institute of Drug Technology Australia Limited comply with International Financial Reporting Standards (IFRS). Financial statements of Institute of Drug Technology Australia Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Institute of Drug Technology Australia Limited 2006 financial statement, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. The comparative figures were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the company's equity and its net income are given in note 31.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

(b) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

(c) Segment Reporting

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

(d) Foreign Currency Translation**(i) Transactions and balances**

Foreign currency transactions are translated into the functional currency (Australian Dollars) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(e) Government Grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions.

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

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

(f) Revenue Recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. A sale is recorded when manufactured goods have been despatched to a customer pursuant to a sales order. Service revenue is recognised in accordance with percentage of completion method. The stage of completion is determined by reference to key milestones achieved to date as a percentage of total contractual value.

(g) Trade Receivables

These amounts represent assets for the provision of goods and services provided to a customer pursuant to a valid order or contract. All trade debtors are recognised at the amounts receivable, as they are due for settlement within 30 days of invoice date. Collectability of trade debtors is reviewed on an ongoing basis and a provision is raised where doubt as to collection exists. Debts which are known to be uncollectable are written off.

(h) Inventories

All inventories are valued at the lower of cost and net realisable value. Cost includes direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

(i) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 10 years.

(j) Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases (note 9). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(k) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| | |
|-------------------------------------|-------------|
| - Buildings | 40 years |
| - Machinery | 10-15 years |
| - Vehicles | 3-5 years |
| - Furniture, fittings and equipment | 5-10 years |

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(l) Intangible Assets - Research and Development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Developments costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 5 to 10 years.

(m) Trade and Other Payables

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

(n) Borrowings

Loans and bills payable are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(o) Maintenance and Repairs

Plant is required to be overhauled on a regular basis. This is managed as part of an on-going major cyclical maintenance program. The costs of maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated. Other routine operating maintenance repair costs and minor renewals are also charged as expenses as incurred.

(p) Employee Benefits**(i) Wages and Salaries and Annual Leave**

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

(ii) Long Service Leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Institute of Drug Technology Executive Option Plan and an employee share scheme. Information relating to these schemes is set out in note 24.

Shares and options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares and options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Institute of Drug Technology Executive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

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

(q) Cash and Cash Equivalents

For purposes of the statement of cashflows, cash and cash equivalents includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

(r) Earnings per Share**(i) Basic Earnings per Share**

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

(f) Non-Current Assets Constructed by the Company

The cost of non-current assets constructed by the company includes the costs of all materials used in construction, direct labour on the project, and an appropriate proportion of directly attributable variable and fixed overheads.

(u) Impairment of Assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable but at least annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(v) Rounding of Amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

| | 2006 | 2005 |
|-----------------------------------|--------|--------|
| | \$'000 | \$'000 |
| 2 Revenue | | |
| Revenue from operating activities | 24,811 | 26,546 |
| Other Revenue | | |
| - Interest | 88 | 191 |
| - Other | 26 | 83 |
| - Royalties | 101 | 113 |
| | 215 | 387 |
| Total Revenue | 25,026 | 26,933 |

3 Expenses

Profit from ordinary activities before income tax expense

includes the following expenses:

| | | |
|---|-------|-------|
| Cost of Goods Sold | 4,724 | 5,397 |
| Interest paid on other borrowings | 102 | 134 |
| Finance charges relating to finance leases | 7 | 7 |
| Depreciation of property, plant and equipment | 1,953 | 2,092 |
| Amortisation | | |
| Finance leases capitalised | 24 | 24 |
| Research and development | 151 | 162 |
| Bad and doubtful debts | 28 | 27 |
| Repairs and maintenance | 458 | 486 |
| Research and development | 12 | 50 |
| Rental expense on operating leases | 416 | 213 |
| Defined contribution superannuation | 727 | 755 |
| Net foreign exchange losses | 29 | 28 |
| Net loss on sale of property, plant and equipment | 1 | 7 |

| | 2006 | 2005 |
|--|--------------|--------|
| | \$'000 | \$'000 |
| 4 Income Tax | | |
| (a) Income Tax expense | | |
| Current tax | 1,205 | 1,652 |
| Deferred tax | 185 | 223 |
| Under provided in prior years | 12 | 5 |
| | 1,402 | 1,880 |
| Deferred Income tax (revenue) expense included in income tax expense comprises | | |
| Decrease (increase) in deferred tax assets (note 8) | (38) | 15 |
| Increase in deferred tax liabilities (note 15) | 223 | 208 |
| | 185 | 223 |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Profit from ordinary activities before income tax expense | 5,015 | 5,219 |
| Prima facie tax expense at 30% | 1,504 | 1,565 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income | | |
| Non deductible entertainment expenses | 1 | 2 |
| Research and development deduction | (150) | (46) |
| Motor vehicle depreciation | 7 | 14 |
| Share based payment | 28 | 340 |
| | 1,390 | 1,875 |
| Under provision in previous year | 12 | 5 |
| Income tax expense attributable to operating profit | 1,402 | 1,880 |
| 5 Current Assets – Cash And Cash Equivalents | | |
| Cash at bank and on hand | 367 | 2,236 |
| These funds are bearing floating interest rates between 4.5% to 5%. (2005 4.5% to 5%) | | |
| 6 Current Assets – Trade And Other Receivables | | |
| Trade receivables | 7,892 | 8,137 |
| Less: Provision for doubtful debts | 40 | 30 |
| | 7,852 | 8,107 |
| Other receivables | 1,582 | 631 |
| Prepayments | 358 | 420 |
| | 9,792 | 9,158 |

6 Current Assets – Trade And Other Receivables (Continued)

Interest Rate Risk

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

| 2006 | Floating Interest Rate | 1 Year or Less | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 4 Years | Over 4 to 5 Years | Over 5 Years | Non Interest Bearing | Total |
|-------------------|------------------------|----------------|-------------------|-------------------|-------------------|-------------------|--------------|----------------------|-------|
| Trade Receivables | - | - | - | - | - | - | - | 7,852 | 7,852 |
| Other Receivables | - | - | - | - | - | - | - | 1,940 | 1,940 |
| | - | - | - | - | - | - | - | 9,792 | 9,792 |

| 2005 | Floating Interest Rate | 1 Year or Less | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 4 Years | Over 4 to 5 Years | Over 5 Years | Non Interest Bearing | Total |
|-------------------|------------------------|----------------|-------------------|-------------------|-------------------|-------------------|--------------|----------------------|-------|
| Trade Receivables | - | - | - | - | - | - | - | 8,107 | 8,107 |
| Other Receivables | - | - | - | - | - | - | - | 1,051 | 1,051 |
| | - | - | - | - | - | - | - | 9,158 | 9,158 |

| | |
|---------------|---------------|
| 2006 | 2005 |
| \$'000 | \$'000 |

7 Current Assets - Inventories

| | | | |
|------------------|---------------------------|--------------|-------|
| Raw materials | - at cost | 863 | 1,286 |
| | - at net realisable value | 181 | 174 |
| | | 1,044 | 1,460 |
| Work in progress | - at cost | 103 | 121 |
| | | 1,147 | 1,581 |

The valuation policy adopted in respect of inventories is set out in Note 1(h).

8 Current Assets - Deferred Tax Assets

| | | |
|--|------------|------|
| Deferred Tax Assets | 468 | 430 |
| The balance comprises temporary differences attributable to amounts recognised in profit and loss: | | |
| Doubtful debts | 12 | 9 |
| Employee benefits | 456 | 421 |
| | 468 | 430 |
| Movements | | |
| Opening balance at 1 July | 430 | 445 |
| Credit (charged) to the income statement | 38 | (15) |
| | 468 | 430 |

| | 2006 | 2005 |
|---|---------------|--------|
| | \$'000 | \$'000 |
| 9 Non Current Assets - Property, Plant And Equipment | | |
| Land and Buildings | | |
| Freehold land at cost | 1,787 | 1,787 |
| Buildings at cost | 5,722 | 5,722 |
| Less: Accumulated depreciation | 749 | 606 |
| Total Land and Buildings | 6,760 | 6,903 |
| Plant and Equipment | | |
| Plant and equipment – at cost | 26,763 | 25,329 |
| Plant and equipment in course of construction | 1,723 | 1,289 |
| Less: Accumulated depreciation | 13,242 | 11,501 |
| | 15,244 | 15,117 |
| Plant and Equipment under Finance Lease | | |
| Less: Accumulated amortisation | 139 | 115 |
| | 22 | 54 |
| | 117 | 61 |
| Total Plant & Equipment | 15,361 | 15,178 |
| | 22,121 | 22,081 |

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

2006

| | Freehold Land | Buildings | Plant & Equipment | Plant & Equipment -WIP | Plant & Equipment under Lease | Total |
|-----------------------------------|------------------|-----------|----------------------|------------------------------|-------------------------------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at start of year | 1,787 | 5,116 | 13,828 | 1,289 | 61 | 22,081 |
| Additions | - | - | 1,510 | 434 | 106 | 2,050 |
| Disposals | - | - | (7) | - | (26) | (33) |
| Depreciation/Amortisation expense | - | (143) | (1,810) | - | (24) | (1,977) |
| Carrying amount at end of year | 1,787 | 4,973 | 13,521 | 1,723 | 117 | 22,121 |

2005

| | Freehold Land | Buildings | Plant & Equipment | Plant & Equipment -WIP | Plant & Equipment under Lease | Total |
|-----------------------------------|------------------|-----------|----------------------|------------------------------|-------------------------------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at start of year | 1,787 | 5,259 | 14,169 | - | 83 | 21,298 |
| Additions | - | - | 1,663 | 1,289 | 33 | 2,985 |
| Disposals | - | - | (55) | - | (31) | (86) |
| Depreciation/Amortisation expense | - | (143) | (1,949) | - | (24) | (2,116) |
| Carrying amount at end of year | 1,787 | 5,116 | 13,828 | 1,289 | 61 | 22,081 |

| | 2006 | 2005 |
|---|--------|--------|
| | \$'000 | \$'000 |
| 10 Non Current Assets - Intangible Assets | | |
| Development expenditure capitalised (Note 1(l)) | 2,732 | 1,850 |
| Less: Accumulated amortisation | 1,251 | 1,100 |
| | 1,481 | 750 |
| Reconciliation of Intangible Assets | | |
| Carrying amount at start of year | 750 | 744 |
| Development expenditure capitalised during the year | 882 | 168 |
| Amortisation of development costs during the year | (151) | (162) |
| Carrying amount at end of year | 1,481 | 750 |
| 11 Current Liabilities – Trade And Other Payables | | |
| Trade payables | 798 | 1,114 |
| Other payables | 1,351 | 1,479 |
| | 2,149 | 2,593 |
| 12 Current Liabilities - Borrowings | | |
| Lease liabilities (Note 20) | 24 | 38 |
| Bills payable | 558 | 558 |
| Total current borrowings | 582 | 596 |
| All current interest bearing liabilities are secured. | | |
| Details of the security relating to each of these liabilities is set out in Note 14. | | |
| Bills Payable | | |
| Bills have been drawn as a source of financing. They bear fixed interest between 7.21% and 7.64% per annum payable quarterly. | | |
| There are two reducing bills that will mature in November 2008. | | |
| 13 Current Liabilities - Current Tax Liabilities | | |
| Income Tax | 253 | 805 |

| | 2006 | 2005 |
|--|------------|--------------|
| | \$'000 | \$'000 |
| 14 Non Current Liabilities - Borrowings | | |
| Lease liabilities (Note 20) | 95 | 24 |
| Bills payable | 880 | 1,439 |
| Total Non Current Borrowings | 975 | 1,463 |

All non current interest bearing liabilities are secured.

Secured Liabilities

| | | |
|---|--------------|--------------|
| Total Secured Liabilities (current and non-current) | | |
| Lease Liabilities | 119 | 62 |
| Bills Payable | 1,438 | 1,997 |
| | 1,557 | 2,059 |

Security for Borrowings

The bank overdraft, bills payable and lease liabilities are secured by the following:

- A Registered Mortgage over property situated at 45 Wadhurst Drive, Boronia
- A Registered Mortgage over property situated at 47-49 Wadhurst Drive, Boronia
- A Registered Mortgage over property situated at 51-57 Wadhurst Drive, Boronia

Lease Liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Financing Arrangements

Unrestricted access was available at balance date to the following lines of credit:

| | | |
|-------------------------|-------|-------|
| Total facilities | | |
| - Multi-Option Facility | 1,000 | 1,000 |
| - Bills payable | 1,438 | 1,997 |
| Used at balance date | | |
| - Multi-Option Facility | - | - |
| - Bills payable | 1,438 | 1,997 |
| Unused at balance date | | |
| - Multi-Option Facility | 1,000 | 1,000 |
| - Bills payable | - | - |

The current interest rates are from 7.21% to 7.64% on bills payable.

Assets Pledged as Security

The carrying amounts of specific assets pledged as security are:

| | | |
|---|--------------|--------------|
| Freehold land and buildings | 6,066 | 6,359 |
| Plant and equipment under finance lease | 117 | 61 |
| Total Assets pledged as security | 6,183 | 6,420 |

14 Non Current Liabilities - Borrowings (Continued)

Interest Rate Exposures

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

Non Current Liabilities

| 2006 | Floating Interest Rate | 1 Year or Less | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 4 Years | Over 4 to 5 Years | Over 5 Years | Total |
|--------------------------------|------------------------|----------------|-------------------|-------------------|-------------------|-------------------|--------------|-------|
| Bills Payable | - | 558 | 558 | 322 | - | - | - | 1,438 |
| Lease Liabilities | - | 24 | 24 | 32 | 39 | - | - | 119 |
| | - | 582 | 582 | 354 | 39 | - | - | 1,557 |
| Weighted average Interest rate | - | 7.59% | 7.59% | 7.62% | 7.54% | - | - | |

| 2005 | Floating Interest Rate | 1 Year or Less | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 4 Years | Over 4 to 5 Years | Over 5 Years | Total |
|--------------------------------|------------------------|----------------|-------------------|-------------------|-------------------|-------------------|--------------|-------|
| Bills Payable | - | 558 | 558 | 558 | 323 | - | - | 1,997 |
| Lease Liabilities | - | 38 | 6 | 6 | 12 | - | - | 62 |
| | - | 596 | 564 | 564 | 335 | - | - | 2,059 |
| Weighted average Interest rate | - | 7.56% | 7.59% | 7.59% | 7.62% | - | - | |

2006 2005
\$'000 \$'000

15 Non Current Liabilities - Deferred Tax Liabilities

Provision for deferred income tax **1,830** 1,607

The balance comprises temporary differences attributable to:

Depreciation **1,386** 1,382

Research and Development **444** 225

1,830 1,607

Movements

Opening balance at 1 July **1,607** 1,399

Charged / (Credited) to the income statement **223** 208

Closing balance at 30 June **1,830** 1,607

16 Non Current Liabilities - Provisions

Employee entitlements **895** 755

17 Contributed Equity

| | 2006 | 2005 | 2006 | 2005 |
|---|-------------------|------------|---------------|--------|
| | Shares | Shares | \$'000 | \$'000 |
| (a) Paid up capital - Ordinary shares, fully paid | 42,869,499 | 42,817,821 | 15,384 | 15,385 |

(b) Movements in ordinary share capital of the company during the past two years were as follows:

| Date | Details | Notes | No. of Shares | \$'000 |
|--------------|-------------------------------|-------|---------------|--------|
| 30 June 2004 | | | 42,783,941 | 15,386 |
| Aug 2004 | IDT Employee Share Plan Issue | (c) | 33,880 | (1) |
| 30 June 2005 | | | 42,817,821 | 15,385 |
| Aug 2005 | IDT Employee Share Plan Issue | (c) | 51,678 | (1) |
| 30 June 2006 | | | 42,869,499 | 15,384 |

(c) IDT Employee Share Plan

On 4 August 2005, the Company issued 51,678 (2005: 33,880) ordinary shares under the rules of the Institute of Drug Technology Australia Limited Employee Share Plan.

(d) Ordinary Shares

Ordinary Shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

| | 2006 | 2005 |
|--|---------------|--------|
| | \$'000 | \$'000 |
| Share-based payments reserve | 1,223 | 1,130 |
| Movements in share-based payment reserve | | |
| Balance 1 July | 1,130 | - |
| Option expense | - | 1,053 |
| Employee share issue expense | 93 | 77 |
| | 1,223 | 1,130 |

Nature and purpose of reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised and the fair value of shares issued under the Institute of Drug Technology Australia Limited Employee Share Plan.

19 Retained Profits

| | | |
|--|----------------|---------|
| Retained profits at the beginning of the financial year | 11,902 | 11,773 |
| Net profit attributable to members of Institute of Drug Technology Australia Limited | 3,613 | 3,339 |
| Dividends provided for or paid | (3,430) | (3,210) |
| Retained profits at the end of the financial year | 12,085 | 11,902 |

| | 2006 | 2005 |
|---|--------|--------|
| | \$'000 | \$'000 |
| 20 Commitments For Expenditure | | |
| (a) Finance Leases | | |
| Commitments in relation to finance leases are payable as follows: | | |
| - Within one year | 31 | 41 |
| - Later than one year but not later than 5 years | 107 | 26 |
| Minimum lease payments | 138 | 67 |
| Less: future finance charges | 19 | 5 |
| Total lease liability | 119 | 62 |
| Representing lease liabilities: | | |
| - Current (Note 12) | 24 | 38 |
| - Non current (Note 14) | 95 | 24 |
| Total | 119 | 62 |

The weighted average interest rate implicit in the leases is 7.37% (2005 7.07%).

(b) Capital Commitments

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:

| | | |
|--|---|-------|
| - Within one year | - | 1,426 |
| - Later than one year but not later than 5 years | - | - |
| - Later than 5 years | - | - |
| | - | 1,426 |

(c) Operating Leases

Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:

| | | |
|--|-----|-----|
| - Within one year | 382 | 398 |
| - Later than one year but not later than 5 years | 280 | 480 |
| - Later than 5 years | - | - |
| | 662 | 878 |

21 Dividends

Ordinary

Final dividend for the year ended 30 June 2005 paid at 4.5 cents (2004 : 4 cents)

| | | |
|---------------|-------|-------|
| Franked @ 30% | 1,930 | 1,712 |
|---------------|-------|-------|

Interim dividend for the year ended 30 June 2006 declared at 3.5 cents (2005 : 3.5 cents)

| | | |
|---------------|-------|-------|
| Franked @ 30% | 1,500 | 1,498 |
|---------------|-------|-------|

| | | |
|--|-------|-------|
| | 3,430 | 3,210 |
|--|-------|-------|

Dividends Not Recognised Year End

Since year end the directors have recommended the payment of a final dividend of 4.5 cents fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 20 October 2006 out of retained profits, but not recognised as a liability at year end is

| | | |
|--|-------|-------|
| | 1,932 | 1,930 |
|--|-------|-------|

| | | |
|--|-------|-------|
| Franking credits available for the subsequent financial year | 4,165 | 3,865 |
|--|-------|-------|

21 Dividends (Continued)

The above amounts represent the balances of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of income tax payable as at the end of the year;
- (b) franking debits that will arise from the payment of dividends proposed as at the end of the year; and
- (c) franking credits that may be prevented from being distributed in the subsequent year.

Franking credits available for subsequent financial years are based on a tax rate of 30%.

The impact on the franking amount of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$828,000 (2005: \$826,000).

| 2006 | 2005 |
|--------|--------|
| \$'000 | \$'000 |

22 Receivables And Payables Denominated In Foreign Currencies

Amounts not effectively hedged

Receivables – Current

| | | |
|-----------------------|-----|-----|
| United States dollars | 431 | 219 |
|-----------------------|-----|-----|

| 2006 | 2005 |
|------|------|
| \$ | \$ |

23 Auditors' Remuneration

Total amounts receivable by RSM Bird Cameron Partners for:

| | | |
|--|--------|---|
| (a) Audit and review of the company's financial statements | 52,000 | - |
| (b) Other services | - | - |

52,000

Total amounts receivable by PriceWaterhouseCoopers Australia for:

| | | |
|--|---|--------|
| (a) Audit and review of the company's financial statements | - | 76,330 |
| (b) Other services | - | - |

- 76,330

The company appointed RSM Bird Cameron Partners as Company Auditor for the financial year ended 30 June 2006.

It is company policy that RSM Bird Cameron Partners will not be appointed or retained to provide any other services outside their statutory audit duties as auditors of the company.

24 Share Based Payments**Executive Share Option Plan**

The establishment of the Institute of Drug Technology Australia Limited Executive Share Option Plan was approved by a General Meeting of the company held on 16 May 1995. Senior executives (including directors of Institute of Drug Technology Australia Limited) are eligible to participate in the plan.

The number of unissued ordinary shares under the options at 30 June 2006 is 1,940,000.

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

2006

| Grant Date | Expiry Date | Exercise Price | Balance at Start of the Year Number | Grant During the Year Number | Exercised During the Year Number | Expired During the Year Number | Balance at End of the Year Number |
|-------------------|-------------------|----------------|-------------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|
| 30 July 2001 | 30 Jul 2005 | \$4.77 | 230,000 | - | - | 230,000 | - |
| 8 August 2002 | 8 August 2006 | \$2.50 | 500,000 | - | - | 160,000 | 340,000 |
| 28 September 2004 | 28 September 2008 | \$2.77 | 480,000 | - | - | 80,000 | 400,000 |
| 2 November 2004 | 2 November 2008 | \$2.85 | 1,200,000 | - | - | - | 1,200,000 |
| 23 June 2005 | 23 June 2009 | \$2.08 | 50,000 | - | - | 50,000 | - |

2005

| Grant Date | Expiry Date | Exercise Price | Balance at Start of the Year Number | Grant During the Year Number | Exercised During the Year Number | Expired During the Year Number | Balance at End of the Year Number |
|-------------------|-------------------|----------------|-------------------------------------|------------------------------|----------------------------------|--------------------------------|-----------------------------------|
| 30 July 2001 | 30 Jul 2005 | \$4.77 | 230,000 | - | - | - | 230,000 |
| 8 August 2002 | 8 August 2006 | \$2.50 | 500,000 | - | - | - | 500,000 |
| 28 September 2004 | 28 September 2008 | \$2.77 | - | 500,000 | - | 20,000 | 480,000 |
| 2 November 2004 | 2 November 2008 | \$2.85 | - | 1,200,000 | - | - | 1,200,000 |
| 23 June 2005 | 23 June 2009 | \$2.08 | - | 50,000 | - | - | 50,000 |

Options are granted under the Institute of Drug Technology Executive Option Plan terms and conditions. Options are granted under the plan for no consideration. Options are granted for a four year period, and vest immediately they are granted.

There were no options issued in this reporting period under the Institute of Drug Technology Executive Option Plan.

The terms and conditions of each grant of options affecting remuneration in the prior reporting period are as follows:

| Grant Date | Expiry Date | Exercise Price | Value per Option at Grant Date | Share Price at Grant Date |
|-------------------|-------------------|----------------|--------------------------------|---------------------------|
| 28 September 2004 | 28 September 2008 | \$2.77 | \$0.60 | \$2.45 |
| 2 November 2004 | 2 November 2008 | \$2.85 | \$0.60 | \$2.47 |
| 23 June 2005 | 23 June 2009 | \$2.08 | \$0.38 | \$1.76 |

24 Share Based Payments (Continued)

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted or at a premium to this price as the Directors may determine.

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to executive directors and other executives, allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2005 included:

| Grant Date | Expiry Date | Exercise Price | Expected Price Volatility | Expected Dividend Yield | Risk Free Rate |
|-------------------|-------------------|----------------|---------------------------|-------------------------|----------------|
| 28 September 2004 | 28 September 2008 | \$2.77 | 39.70% | 3.28% | 5.64% |
| 2 November 2004 | 2 November 2008 | \$2.85 | 38.32% | 3.03% | 5.23% |
| 23 June 2005 | 23 June 2009 | \$2.08 | 35.62% | 3.65% | 5.23% |

The number of unlisted options in the company held during the financial year by each director of Institute of Drug Technology Australia Limited and each of the five most highly remunerated executives are set out in note 25.

Employee Share Plan

The establishment of the Institute of Drug Technology Australia Limited Employee Share Plan was approved at the Annual General Meeting held on 29 October 1999. On 26 July 2005 the Company issued to 100 employees, a total of 51,678 ordinary shares under the rules of the Institute of Drug Technology Australia Limited Employee Share Plan.

Under the scheme, eligible employees may be offered up to \$1,000 worth of fully-paid ordinary shares in Institute of Drug Technology Australia Limited annually for no cash consideration. The market value of shares issued under the scheme, measured as the weighted average market price on the day of issue of the shares, is recognised in the income statement as part of employee benefit costs in the period the shares are granted.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment with the company. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the date of the offer.

Expenses arising from Share-based Payment Transactions

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

| | 2006 \$'000 | 2005 \$'000 |
|--|----------------|----------------|
| Options issued under executive option plan | - | 1,053 |
| Shares issued under employee share plan | 93 | 77 |
| | 93 | 1,130 |

25 Key Management Personnel Disclosures**Directors**

The following persons were directors of Institute of Drug Technology Australia Limited during the financial year:

GL Blackman, Chairman and Managing Director

Non Executive Directors:

A Blackman

G Vaughan

G Lord

R Burnet

R Green

Other Key Management Personnel

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

| Name | Position |
|-------------|---|
| R Elliott | General Manager |
| R Woods | R&D Manager |
| A McKenzie | Manager, Finance & Administration |
| J Kelly | Clinical Operations Manager |
| C Rogers | Clinical Operation Manager (resigned 14 September 2005) |

All of the above persons were also Key Management during the year ended 30 June 2005, except for J Kelly who was promoted to Clinical Operations Manager on 15 September 2005 upon the resignation of C Rogers.

Key Management Personnel Compensation

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the company's operations and achieving the company's strategic objectives.

Directors' Remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Board. The Board also considers the advice of independent remuneration consultants and comparable companies to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman and Managing Director's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman and Managing Director is not present at any discussions relating to the determination of his own remuneration.

Directors' Fees

The current base remuneration has been in place for a number of years, and effective 1 July 2005 the non-executive directors' annual base fee increased to \$20,000 from \$12,000. The Chairman and Managing Director's remuneration was last reviewed with effect from 1 January 2006.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum aggregate directors' fee pool currently is \$200,000 for non-executive directors.

Details of the nature and amount of each element of the emoluments of each director of Institute of Drug Technology Australia Limited and each of the five executives of the company receiving the highest emoluments are set out in the following tables.

25 Key Management Personnel Disclosures (Continued)**Non-Executive Directors of Institute of Drug Technology Australia Limited**

2006

| Name | Directors' Base Fee \$ | Superannuation \$ | Total \$ |
|--------------|---------------------------|----------------------|-------------|
| A D Blackman | 20,000 | 1,800 | 21,800 |
| R Burnet | 20,000 | 1,800 | 21,800 |
| R R Green | 20,000 | 1,800 | 21,800 |
| G F Lord | 20,000 | - | 20,000 |
| G N Vaughan | 20,000 | 1,800 | 21,800 |

2005

| Name | Directors' Base Fee \$ | Superannuation \$ | Options \$ | Total \$ |
|--------------|---------------------------|----------------------|---------------|-------------|
| A D Blackman | 20,000 | 1,800 | 121,634 | 143,434 |
| R Burnet | 20,000 | 1,800 | 121,634 | 143,434 |
| R R Green | 20,000 | 1,800 | 121,634 | 143,434 |
| G F Lord | 20,000 | - | 121,634 | 141,634 |
| G N Vaughan | 20,000 | 1,800 | 121,634 | 143,434 |

Other Key Management Personnel Remuneration

Other key management personnel remuneration and other terms of employment are reviewed annually by the committee having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, discretionary bonuses and fringe benefits. Other key management personnel are also eligible to participate in the Executive Share Option plan. There are no service agreements or special terms of employment for other key management personnel of Institute of Drug Technology Australia Limited.

Executive Directors of Institute of Drug Technology Australia Limited

2006

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|--|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| G L Blackman Chairman and Managing Director | 413,499 | 10,800 | 164,017 | - | 588,316 |

2005

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|--|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| G L Blackman Chairman and Managing Director | 411,883 | 10,800 | 168,735 | 121,634 | 713,052 |

25 Key Management Personnel Disclosures (Continued)**Other Key Management Personnel of Institute of Drug Technology Australia Limited**

2006

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|--|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| R Elliott General Manager | 314,250 | 45,927 | 31,605 | 1,000 | 392,782 |
| R Woods R&D Manager | 132,750 | 59,840 | 14,656 | 1,000 | 208,246 |
| A McKenzie Manager, Finance & Administration | 170,375 | 23,305 | 7,070 | 1,000 | 201,750 |
| J Kelly Clinical Operations Manager | 132,696 | 11,875 | 6,698 | 1,000 | 152,269 |
| C Rogers Clinical Operations Manager (from 01/07/05 to 14/09/05) | 50,806 | 3,261 | 3,784 | 1,000 | 58,851 |

2005

| Name | Cash Salary and Fee \$ | Super-annuation \$ | Other Fringe Benefits \$ | Share Based Payment | Total \$ |
|---|---------------------------|-----------------------|-----------------------------|---------------------|-------------|
| R Elliott General Manager | 268,519 | 37,540 | 72,806 | 34,547 | 413,412 |
| R Woods R&D Manager | 124,460 | 56,094 | 36,403 | 14,656 | 231,613 |
| A McKenzie Manager, Finance & Administration | 150,400 | 13,472 | 60,672 | 10,276 | 234,820 |
| C Rogers Clinical Operations Manager | 140,195 | 12,553 | 55,764 | 15,136 | 223,648 |

Directors and Other Key Management Personnel Compensation

| | 2006 \$ | 2005 \$ |
|------------------------------|------------------|------------|
| Short term employee benefits | 1,542,206 | 1,504,095 |
| Post employment benefits | 162,208 | 72,371 |
| Share based payments | 5,000 | 955,449 |
| | 1,709,414 | 2,531,915 |

25 Key Management Personnel Disclosures (Continued)**Share Holdings**

The number of shares in the company held during the financial year by each director of Institute of Drug Technology Australia Limited and other key management personnel are set out below.

2006**Directors**

| Name | Balance at Start of the Year | Changes During the Year | Balance at the End of the Year |
|--------------|------------------------------|-------------------------|--------------------------------|
| A D Blackman | 129,600 | - | 129,600 |
| R Burnet | 417,400 | - | 417,400 |
| R R Green | 512,202 | - | 512,202 |
| G F Lord | 5,968,215 | 468,311 | 6,436,526 |
| G N Vaughan | 302,400 | 2,000 | 304,400 |

Executive Director

| Name | Balance at Start of the Year | Changes During the Year | Balance at the End of the Year |
|--------------|------------------------------|-------------------------|--------------------------------|
| G L Blackman | 5,830,313 | - | 5,830,313 |

Other Key Management Personnel

| Name | Balance at Start of the Year | Changes During the Year | Balance at the End of the Year |
|------------|------------------------------|-------------------------|--------------------------------|
| R Elliott | 5,106 | (3,806) | 1,300 |
| R Woods | 84,588 | - | 84,588 |
| A McKenzie | 8,000 | 11,300 | 19,300 |
| J Kelly | 1,254 | 558 | 1,812 |
| C Rogers | - | - | - |

2005**Directors**

| Name | Balance at Start of the Year | Changes During the Year | Balance at the End of the Year |
|--------------|------------------------------|-------------------------|--------------------------------|
| A D Blackman | 129,600 | - | 129,600 |
| R Burnet | 417,400 | - | 417,400 |
| R R Green | 546,306 | (34,104) | 512,202 |
| G F Lord | 5,968,215 | - | 5,968,215 |
| G N Vaughan | 302,400 | - | 302,400 |

Executive Director

| Name | Balance at Start of the Year | Changes During the Year | Balance at the End of the Year |
|--------------|------------------------------|-------------------------|--------------------------------|
| G L Blackman | 5,830,313 | - | 5,830,313 |

Other Key Management Personnel

| Name | Balance at Start of the Year | Changes During the Year | Balance at the End of the Year |
|------------|------------------------------|-------------------------|--------------------------------|
| R Elliott | 50,862 | (45,756) | 5,106 |
| R Woods | 84,588 | - | 84,588 |
| A McKenzie | 8,000 | - | 8,000 |
| C Rogers | - | - | - |

25 Key Management Personnel Disclosures (Continued)**Unlisted Options**

The number of unlisted options in the company held during the financial year by each director of Institute of Drug Technology Australia Limited and other key management personnel are set out below. All options granted vest immediately and are exercisable for a four year period.

2006**Directors**

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of the Year |
|--------------|--------------------------|-------------------------|------------------------|--------------------------------|
| A D Blackman | 200,000 | - | - | 200,000 |
| R Burnet | 200,000 | - | - | 200,000 |
| R R Green | 200,000 | - | - | 200,000 |
| G F Lord | 200,000 | - | - | 200,000 |
| G N Vaughan | 200,000 | - | - | 200,000 |

Executive Director

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of the Year |
|--------------|--------------------------|-------------------------|------------------------|--------------------------------|
| G L Blackman | 200,000 | - | - | 200,000 |

Other Key Management Personnel

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of the Year |
|------------|--------------------------|-------------------------|------------------------|--------------------------------|
| R Elliott | 280,000 | - | 80,000 | 200,000 |
| R Woods | 200,000 | - | 70,000 | 130,000 |
| A McKenzie | 260,000 | - | 80,000 | 180,000 |
| C Rogers | 250,000 | - | 250,000 | - |
| J Kelly | 20,000 | - | - | 20,000 |

2005**Directors**

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of the Year |
|--------------|--------------------------|-------------------------|------------------------|--------------------------------|
| A D Blackman | - | 200,000 | - | 200,000 |
| R Burnet | - | 200,000 | - | 200,000 |
| R R Green | - | 200,000 | - | 200,000 |
| G F Lord | - | 200,000 | - | 200,000 |
| G N Vaughan | - | 200,000 | - | 200,000 |

Executive Director

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of the Year |
|--------------|--------------------------|-------------------------|------------------------|--------------------------------|
| G L Blackman | - | 200,000 | - | 200,000 |

Other Key Management Personnel

| Name | Balance at Start of Year | Granted During the Year | Lapsed During the Year | Balance at the End of the Year |
|------------|--------------------------|-------------------------|------------------------|--------------------------------|
| R Elliott | 160,000 | 120,000 | - | 280,000 |
| R Woods | 140,000 | 60,000 | - | 200,000 |
| A McKenzie | 160,000 | 100,000 | - | 260,000 |
| C Rogers | 140,000 | 110,000 | - | 250,000 |
| J Kelly | - | 20,000 | - | 20,000 |

26 Financial Reporting By Segments

The company operates predominantly in the pharmaceutical industry. The principal activities of the company are the provision of products and research and development and other technical services for the pharmaceutical and allied industries.

The company operates predominantly in one geographical area, being Australia.

27 Financial Risk Management

The company's activities expose it to a variety of financial risks; market risk (including currency risk, and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company.

Risk management is carried out by management under procedures approved by the Board of Directors. Management identifies and evaluates financial risks in close cooperation with the Board of Directors. The Board provides guidance for overall risk management, such as mitigating foreign exchange, interest rate and credit risks, and investing excess liquidity.

(a) Market risk**(i) Foreign exchange risk**

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The company operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar in billings and purchase of major equipment. It is company policy to invoice predominantly in Australian dollars where possible.

(ii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The company has no significant concentrations of credit risk. The company has procedures in place to ensure that sales of products and services are made to customers with an appropriate credit history. The company has procedures that limit the amount of credit exposure to any one customer.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to adequately fund cash flow requirements. Due to the dynamic nature of the underlying businesses, management aims at maintaining flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the company has no significant interest-bearing assets, the company's income and operating cash flows are not materially exposed to changes in market interest rates.

The company's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. Borrowings issued at fixed rates expose the company to fair value interest-rate risk.

| 2006 | 2005 |
|------|------|
| \$ | \$ |

28 Related Party Transactions

Directors

The names of persons who were directors of the company at any time during the financial year are G L Blackman, A D Blackman, R Burnet, R R Green, G N Vaughan and G F Lord.

Other Key Management Personnel

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

| Name | Position |
|------------|--|
| R Elliott | General Manager |
| R Woods | R&D Manager |
| A McKenzie | Manager, Finance & Administration |
| J Kelly | Clinical Operations Manager |
| C Rogers | Clinical Operations Manager (resigned 14 September 2005) |

All of the above persons were also Other Key Management Personnel during the year ended 30 June 2005, except for J Kelly who was promoted to Clinical Operations Manager on 15 September 2005 upon the resignation of C Rogers.

Transactions of Directors and Other Key Management Personnel Concerning Shares or Share Options

The transactions relating to dividends were on the same terms and conditions that applied to other shareholders.

The aggregate amounts of each of the above types of other transactions with directors and key management personnel were as follows:

| | | |
|----------------|------------------|---------|
| Dividends paid | 1,061,370 | 996,189 |
|----------------|------------------|---------|

Aggregate numbers of shares of Institute of Drug Technology Australia Limited acquired and disposed of by directors or other key management personnel were as follows:

| | 2006 | 2005 |
|--------------------------|----------------|---------|
| | Shares | Shares |
| Ordinary shares acquired | 478,363 | 51,162 |
| Ordinary shares disposed | - | 131,022 |

The terms and conditions of transactions relating to shares were on the same basis as similar transactions with other shareholders.

Aggregate numbers of shares of Institute of Drug Technology Australia Limited held directly, indirectly or beneficially by directors or other key management personnel at balance date were as follows:

| | | |
|-----------------|-------------------|------------|
| Ordinary shares | 13,737,441 | 13,257,824 |
|-----------------|-------------------|------------|

Information relating to Share Option transactions is set out in Note 24.

28 Related Party Transactions (Continued)**Other Transactions with Directors and Other Key Management Personnel**

A family member of Dr G L Blackman is employed by Institute of Drug Technology Australia Limited. This family member is employed on employer/employee terms, and has been compensated based on the role they perform.

A family member of Dr R Elliott (General Manager) is employed by Institute of Drug Technology Australia Limited. This family member is employed on normal employer/employee terms, and has been compensated based on normal commercial terms for the role they perform.

A director, Dr G Vaughan, is a director of Cytopia Limited. Institute of Drug Technology Australia Limited as entered into a contract to provide services to Cytopia Limited on normal commercial terms and conditions and at normal commercial rates.

| | 2006 | 2005 |
|---|----------------|---------|
| | \$ | \$ |
| Aggregate Amount of Other Transactions with Directors and Other Key Management Personnel | | |
| Employee Benefits | 174,666 | 168,982 |
| Professional Services | 488,514 | 237,960 |
| | 2006 | 2005 |
| | \$'000 | \$'000 |

29 Reconciliation Of Net Cash Inflow From Operating Activities To Operating Profit After Income Tax

| | | |
|--|----------------|---------|
| Net cash inflow from operating activities | 4,959 | 5,047 |
| Depreciation and amortisation | (2,128) | (2,278) |
| Net loss on sale of non current assets | (1) | (7) |
| Net gain on sale of non current assets | 6 | 3 |
| Non-cash share based payment | (93) | (1,130) |
| Change in operating assets and liabilities | | |
| (Decrease)/Increase in receivables | 635 | 2,052 |
| (Decrease)/Increase in inventories | (434) | (302) |
| (Increase)/Decrease in payables | 445 | 595 |
| (Increase)/Decrease in provision for deferred income tax | (223) | (209) |
| (Decrease)/Increase in deferred tax benefit | 38 | (3) |
| (Increase)/Decrease in other provisions | 409 | (429) |
| Operating profit after income tax | 3,613 | 3,339 |

30 Earnings Per Share

| | | |
|---|-------------------|------------|
| Basic earnings per share | 8.4¢ | 7.8¢ |
| Diluted earnings per share | 8.4¢ | 7.8¢ |
| Weighted average number of ordinary shares on issue during the year used in calculation of basic earnings per share | 42,865,818 | 42,814,572 |
| Weighted average number of ordinary shares on issue during the year used in the calculation of diluted earnings per share | 42,865,818 | 42,814,572 |

Information Concerning the Classification of Securities**Options**

Options granted to managers and directors under the Institute of Drug Technology Australia Limited Executive Share Option Plan are considered to be dilutive potential ordinary shares where the exercise price is less than the share price as at 30 June 2006. Only these potential ordinary shares have been included in the determination of diluted earnings per share.

No options have been included in the determination of basic earnings per share. Details relating to options are set out in Note 24.

31 Explanation of transition to Australian Equivalent to IFRS's

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian Equivalents to IFRS's (AIFRS).

(a) At the date of transition to AIFRS: 1 July 2004.

| | Note | Previous AGAAP \$'000 | Effect of Change \$'000 | AIFRS \$'000 |
|--------------------------------------|------|-----------------------------|-------------------------------|-----------------|
| Current Assets | | | | |
| Cash | | 4,053 | - | 4,053 |
| Receivables | | 7,106 | - | 7,106 |
| Inventories | | 1,883 | - | 1,883 |
| Deferred tax assets | | 433 | - | 433 |
| Total Current Assets | | 13,475 | - | 13,475 |
| Non Current Assets | | | | |
| Property, plant and equipment | | 21,298 | - | 21,298 |
| Other | (b) | 1,787 | (1,043) | 744 |
| Total Non Current Assets | | 23,085 | (1,043) | 22,042 |
| Total Assets | | 36,560 | (1,043) | 35,517 |
| Current Liabilities | | | | |
| Payables | | 2,561 | 625 | 3,186 |
| Interest bearing liabilities | | 586 | - | 586 |
| Current tax liabilities | | 397 | - | 397 |
| Provisions | | 625 | (625) | - |
| Total Current Liabilities | | 4,169 | - | 4,169 |
| Non Current Liabilities | | | | |
| Interest bearing liabilities | (c) | 2,055 | - | 2,055 |
| Deferred tax liabilities | | 1,711 | (312) | 1,399 |
| Provisions | | 735 | - | 735 |
| Total Non Current Liabilities | | 4,501 | (312) | 4,189 |
| Total Liabilities | | 8,670 | (312) | 8,358 |
| Net Assets | | 27,890 | (731) | 27,159 |
| Equity | | | | |
| Contributed equity | | 15,386 | - | 15,386 |
| Reserves | | - | - | - |
| Retained profits | (d) | 12,504 | (731) | 11,773 |
| TOTAL EQUITY | | 27,890 | (731) | 27,159 |

31 Explanation of transition to Australian Equivalent to IFRS's (Continued)

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

| | Note | Previous AGAAP \$'000 | Effect of Change \$'000 | AIRFS \$'000 |
|--------------------------------------|------|-----------------------------|-------------------------------|-----------------|
| Current Assets | | | | |
| Cash | | 2,236 | - | 2,236 |
| Receivables | | 9,158 | - | 9,158 |
| Inventories | | 1,581 | - | 1,581 |
| Deferred tax assets | | 430 | - | 430 |
| Total Current Assets | | 13,405 | - | 13,405 |
| Non Current Assets | | | | |
| Property, plant and equipment | | 22,081 | - | 22,081 |
| Other | (b) | 1,794 | (1,044) | 750 |
| Total Non Current Assets | | 23,875 | (1,044) | 22,831 |
| Total Assets | | 37,280 | (1,044) | 36,236 |
| Current Liabilities | | | | |
| Payables | | 1,945 | 648 | 2,593 |
| Interest bearing liabilities | | 596 | - | 596 |
| Current tax liabilities | | 805 | - | 805 |
| Provisions | | 648 | (648) | - |
| Total Current Liabilities | | 3,994 | - | 3,994 |
| Non Current Liabilities | | | | |
| Interest bearing liabilities | | 1,463 | - | 1,463 |
| Deferred tax liabilities | (c) | 1,920 | (313) | 1,607 |
| Provisions | | 755 | - | 755 |
| Total Non Current Liabilities | | 4,138 | (313) | 3,825 |
| Total Liabilities | | 8,132 | (313) | 7,819 |
| Net Assets | | 29,148 | (731) | 28,417 |
| Equity | | | | |
| Contributed equity | | 15,385 | - | 15,385 |
| Reserves | (a) | - | 1,130 | 1,130 |
| Retained profits | (d) | 13,763 | (1,861) | 11,902 |
| TOTAL EQUITY | | 29,148 | (731) | 28,417 |

31 Explanation of transition to Australian Equivalent to IFRS's (Continued)**(2) Reconciliation of profit under previous AGAAP to profit under Australia equivalent to IFRS's (AIRFS).**

(a) Reconciliation of profit for the year ended 30 June 2005

| | Note | Previous AGAAP \$'000 | Effect of Change \$'000 | AIRFS \$'000 |
|---|--------|-----------------------------|-------------------------------|-----------------|
| Revenue from ordinary activities | | 26,933 | - | 26,933 |
| Raw materials and consumables used | | 2,536 | - | 2,536 |
| Employee benefits expense | (b)(c) | 9,542 | 1,394 | 10,936 |
| Depreciation and amortisation expenses | (c) | 2,540 | (262) | 2,278 |
| Borrowing costs expense | | 141 | - | 141 |
| Utilities | | 631 | - | 631 |
| Repairs and maintenance | | 486 | - | 486 |
| Subject and Screenings | | 1,269 | - | 1,269 |
| Insurance | | 458 | - | 458 |
| Waste removal | | 159 | - | 159 |
| Consumables | | 434 | - | 434 |
| Travel | | 157 | - | 157 |
| Other Expenses | | 2,229 | - | 2,229 |
| Profit from ordinary activities before income tax expense | (b) | 6,351 | 1,132 | 5,219 |
| Income tax expense | | 1,880 | - | 1,880 |
| Net profit attributable to members of Institute of Drug Technology Australia Limited | | 4,471 | 1,132 | 3,339 |

31 Explanation of transition to Australian Equivalent to IFRS's (Continued)

Notes explaining the impacts on the income statement and balance sheet

(3) Reconciliation of Cash Flow statement for the year ended 30 June 2005.

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the Reconciliates**(a) Equity-based Compensation Benefits**

Under AASB 2 Share-based Payment, from 1 July 2004 the company is required to recognise an expense for those options or shares that were issued to employees under the Institute of Drug Technology Executive Option Plan after 7 November 2002 but that had not vested by 1 January 2005, measured at fair value at grant date.

(i) At 1 July 2004

There is no effect to the company.

(ii) At 30 June 2005

There has been a decrease in retained earnings of \$1,130,000 and a corresponding increase in reserves.

(iii) For the year ended 30 June 2005

There has been an increase in employee benefits expense of \$1,130,000.

(b) Research and Development

Under AASB 138 Intangible Assets, the costs of research activities will be expensed as incurred, rather than being capitalised as an intangible assets.

This will result in a change to the current accounting policy under which research costs can be capitalised to the extent that such costs are expected beyond any reasonable doubt to be recoverable. This change will have an initial impact on retained earnings and the carrying value of research and development, as previous recognised research activities are reversed. This will also impact the future amortisation charge which is applied on a straight line basis over the period of expected benefit.

(i) At 1 July 2004

There has been a decrease in research and development expenditure capitalised by \$1,043,000 and retained earnings by \$731,000. Deferred tax liabilities have decreased by \$312,000.

(ii) At 30 June 2005

There has been a decrease in research and development expenditure capitalised by \$1,044,000 and retained earnings by \$731,000. Deferred tax liabilities have decreased by \$313,000.

(iii) For the year ended 30 June 2005

There has been an increase in employee benefits expense of \$264,000.

There has been a decrease in amortisation charges of \$262,000.

31 Explanation of transition to Australian Equivalent to IFRS's (Continued)**(c) Deferred Tax Liability**

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity. This change may have an initial impact on retained earnings and could alter the future carrying values of deferred tax assets and liabilities.

If the policy required by AASB112 had been applied during the year ended 30 June 2005, a decrease in deferred tax liabilities would have been recognised due to the tax effect of the AIFRS impact of revaluations of carried forward research and development expenditure.

(i) At 1 July 2004

There has been a decrease of \$312,000.

(ii) At 30 June 2005

There has been a decrease of \$313,000.

(d) Retained Earnings

The effect on retained earnings of the changes set out above are as follows:

| | Note | 1 July 2004 | 30 June 2005 |
|---------------------------------|------|-------------|--------------|
| | | \$'000 | \$'000 |
| Research and developments costs | | (731) | (731) |
| Share-based payments | | - | (1,130) |
| Total adjustment | | (731) | (1,861) |

(e) Employee Benefits

Under AASB 119 Employee Benefits, liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months are recognised in other payables in respect of employees' services up to the reporting change. This will result in a change to the accounting policy under which employee benefits are recognised as a provision under current liabilities.

(i) At 1 July 2004

There has been an increase in payables of \$625,000 and a decrease in provisions of \$625,000.

(ii) At 1 July 2005

There has been an increase in payables of \$648,000 and a decrease in provisions of \$648,000.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 18 to 50 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance, as represented by the result of its operations, changes in equity and cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

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

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



G L Blackman
Director



R Burnet
Director

Melbourne
18 September 2006

RSM Bird Cameron Partners

Chartered Accountants

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INDEPENDENT AUDIT REPORT

To the members of Institute of Drug Technology Australia Limited

Scope

We have audited the financial report of Institute of Drug Technology Australia Limited for the financial year ended 30 June 2006 which comprises the Income Statement, Balance Sheet, Statements of Changes in Equity, Cash Flow Statement, Notes to the Financial Statements and Directors Declaration. The Company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements in Australia and the Corporations Act 2001 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, changes in equity and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion the financial report of Institute of Drug Technology Australia 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 2006 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements in Australia.



RSM BIRD CAMERON PARTNERS
Chartered Accountants



P A RANSOM
Partner

18 September, 2006
Melbourne

Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.



Shareholder Information

The shareholder information set out below was applicable as at 25 August 2006.

A. Distribution of Equity Securities

Analysis of numbers of equity security holders by size of holding:

| No. of Fully Paid Ordinary Shares Held | Ordinary Shares | |
|--|-----------------|---------|
| | Shares | Options |
| 1 - 1,000 | 663 | - |
| 1,001 - 5,000 | 1,074 | - |
| 5,001 - 10,000 | 356 | - |
| 10,001 - 100,000 | 365 | 7 |
| 100,001 - over | 42 | 8 |
| | 2,500 | 15 |

There were 176 holders of less than a marketable parcel of ordinary shares.

B. Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are listed below:

| Name | Number of Ordinary Shares Held | Percentage of Issued Shares |
|--|--------------------------------|-----------------------------|
| 1. Graeme Leslie Blackman | 5,830,313 | 13.63 |
| 2. Paulene Blackman | 4,692,737 | 10.97 |
| 3. ANZ Nominees | 3,587,456 | 8.39 |
| 4. Keygrowth Pty Ltd | 2,332,116 | 5.45 |
| 5. National Nominees Limited | 1,136,133 | 2.66 |
| 6. Coven-SA Ltd | 782,300 | 1.83 |
| 7. J P Morgan Nominees Australia Limited | 774,424 | 1.81 |
| 8. Debuscey Pty Ltd | 746,800 | 1.75 |
| 9. Wildflower Investments Pty Ltd | 669,000 | 1.56 |
| 10. Avanteos Investments Limited | 417,400 | 0.98 |
| 11. RBC Dexia Investor Services Australia Nominees Pty Limited | 363,596 | 0.85 |
| 12. Mr Theodore Hays McLendon | 358,300 | 0.84 |
| 13. Belgravia Strategic Equities Pty Ltd | 321,215 | 0.75 |
| 14. Dr Geoffrey Norman Vaughan | 304,400 | 0.71 |
| 15. PAPL Ebsco Pty Ltd | 300,000 | 0.70 |
| 16. Mirlex Pty Ltd | 273,070 | 0.64 |
| 17. Chimaera Capital Limited | 257,800 | 0.60 |
| 18. Mr Richard Frederick Haselgrove | 256,600 | 0.60 |
| 19. Mr Anthony John Huntley | 250,000 | 0.58 |
| 20. Paribas Pty Ltd | 250,000 | 0.58 |
| | 23,903,660 | 55.88 |

C. Substantial Holders

Substantial holders in the company are set out below:

| Ordinary Shares | Number Held | Percentage |
|------------------------|-------------|------------|
| Graeme Leslie Blackman | 5,830,313 | 13.63 |
| Paulene Blackman | 4,692,737 | 10.97 |
| Keygrowth Pty Ltd | 2,332,116 | 5.45 |

D. Voting Rights

A registered holder of shares in the company may attend general meetings of the company in person or by proxy and on a poll may exercise one vote for each share held.



Institute of Drug Technology Australia Limited

ABN 66 006 522 970

Registered office

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