LABTECH SYSTEMS LTD
ACN 107 670 673

ANNUAL REPORT

30 JUNE 2005

LABTECH SYSTEMS LTD
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CORPORATE GOVERNANCE STATEMENT

The Board of Directors of LabTech Systems Ltd is responsible for the corporate governance of the company. The Board guides and monitors the business and affairs of LabTech Systems Ltd on behalf of the members to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities it has established corporate governance guidelines for the operation of the Board.

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board shall constitute not less than three (3) nor more than ten (10) Directors, all being natural persons.

- one third of directors shall be elected by the members at an annual general meeting; such term expiring at the conclusion of the second annual general meeting of the company after the annual general meeting at which the directors were elected. Retiring directors are eligible for re-election.

- the Board may after each annual general meeting appoint as directors up to three (3) other persons, the first two (2) of whom shall not be members of the company. Such appointed directors shall hold office until the conclusion of the next annual general meeting of the company and shall be eligible for reappointment.

- the Board has the power to appoint any other qualified person as a director to fill a casual vacancy or as an addition to the Board but so that the total number of directors shall not at any time exceed the maximum number. Any director so appointed shall hold office only until the conclusion of the next annual general meeting of the company and shall be eligible for re-election.

- the chairman should be an appointed non executive director.

The directors in office at the date of this report are:

Mr Douglas Peter LeMessurier
Mrs Lusia Halina Guthrie
Mr Paul Andrew Mariani

Board Responsibilities

As the Board acts on behalf of and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders, as well as other interested parties. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the group is delegated by the board to the managing director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive team.

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The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board.

This is achieved by:

- development and adoption of strategic aims;
- constantly reviewing the future direction of the company;
- implementation of operating plans and budgets by management and monitoring by the board of progress against budget;
- supervision and direction of management;
- monitoring of performance indicators against plans and prior year performance;
- procedures to allow the directors, whilst performing their duties, to seek independent professional advice;
- establishment of the remuneration package of the managing director and review of executive remuneration packages with the help of the remuneration committee;
- the review and approval of business acquisitions and disposals, mergers, joint ventures and the acquisition and disposal of strategic assets.

Audit Committee

The board is responsible for the company's accounting policies and practices, internal controls and financial reporting requirements. However the board has established an audit committee to assist in fulfilling these obligations. The audit committee reports to and operates in accordance with guidelines established by the board. The audit committee's responsibilities include:

- evaluating the adequacy and effectiveness of the company's administrative and accounting policies through active communication with management and the external auditors;
- reviewing the financial statements to ensure accuracy and adequacy of disclosure and compliance with statutory requirements prior to their release to the members and the public;
- reviewing and monitoring the effectiveness, efficiency and compliance with internal controls;
- evaluating the adequacy of the company's accounting control system by reviewing written reports from external auditors and monitor managements responses and actions to correct any deficiencies;
- review and approve all significant accounting policy changes;
- the safeguarding of company assets;
- the reliability of non financial information;

- nomination of the external auditor and review the scope and adequacy of the annual statutory external audit;

- evaluate the overall effectiveness of the external statutory audit through regular meetings with the external auditors;

- evaluation of insurance cover by discussion with or review of broker's reports.

The members of the audit committee are:

Mrs Lusia Halina Guthrie
Mr Paul Andrew Mariani

Remuneration Committee

The board is responsible for the company's remuneration policy and compliance with environmental and health welfare and safety issues. However the board has established a remuneration committee to assist in fulfilling these obligations. The remuneration committee reports to and operates in accordance with guidelines established by the board. The remuneration committee's responsibilities include:

- to determine and monitor the application of the remuneration policy that best suits the achievement of the objectives of the company;

- evaluate the adequacy of the company's levels of remuneration by monitoring the remuneration packages that are available both nationally and in the local area;

- annually review the management recommendations for the remuneration packages of all employees;

- review management proposals for individual employee remuneration packages where changes in responsibilities are to be made;

- evaluate the company's exposure to risk through lack of compliance to statutory regulations relating to environmental issues;

- evaluate the company's exposure to risk through lack of compliance to statutory regulations relating to occupational health, safety and welfare;

- monitor management's responses and actions to correct any deficiencies in relation to environmental and occupational health, safety and welfare issues.

The members of the remuneration committee are:

Mrs Lusia Halina Guthrie
Mr Paul Andrew Mariani

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Monitoring of the Board's Performance and Communications to Shareholders

The board aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. Information is communicated through:

- the annual report which is distributed to all members
- the annual general meeting of the company
- regular newsletters.

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DIRECTORS' REPORT

Your directors present their report on the company for the year ended 30 June 2005.

Directors

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

Douglas Peter LeMessurier
Lusia Halina Guthrie
Paul Andrew Mariani

Directors have been in office since the start of the financial year to the date of this report.

Company Secretary

The following person held the position of company secretary at the end of the financial year:

Douglas Peter LeMessurier - Sharebroker. Mr LeMessurier was appointed company secretary on 19 January 2004.

Principal Activities

The principal activities of the company during the financial year were those of researching and further developing innovative technologies for the healthcare and laboratory supply markets.

There were no significant changes in the nature of the entity's principal activities during the financial year.

Operating Results

The loss of the company for the period ended 30 June 2005 was $304,072.

Dividends Paid or Recommended

There were no dividends paid or recommended to be paid.

Review of Operations

Background

LabTech Systems Ltd is a research company with objectives to further research novel technologies with applications in the areas of microbiology laboratory automation and cancer management.

The company holds a worldwide exclusive licence to a patented new technology developed at the IMVS in Adelaide, called MicroStreak®, the technology allows automated inoculation and streaking of specimens on to standard agar culture plates as an alternative to the labour-intensive methods traditionally used in diagnostic microbiology laboratories. A global market opportunity exists for the automation of routine processing in diagnostic microbiology laboratories.

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Review of Operations (cont)

The company holds a worldwide exclusive option over a patented platform anti-cancer technology developed by researchers at the Hanson Institute in Adelaide. Called APOMAB®, the technology provides a highly specific and reliable means of detecting the presence of apoptotic cells both *in vivo* and *in vitro*. APOMAB® has potential for application to cancer diagnostic and therapeutic products.

The focus of activities from July 2004 to July 2005 was to progress proof of concept research for both technologies, against the research plans and milestone targets.

MicroStreak® Research

The isolation and identification of micro-organisms for medical diagnostic purposes plays an important role in determining which treatments are required by patients with various diseases. Currently, conventional diagnostic microbiology involves labour-intensive, manual processing of laboratory specimens to isolate single bacterial colonies. Traditionally, inoculation and streaking of specimens is performed manually using a wire loop.

A prototype MicroStreak® applicator was developed as a disposable plastic applicator, ultimately to be incorporated into an automated robotic system. An alpha-prototype robotic instrument was also developed incorporating the MicroStreak® applicator.

Clinical testing of the MicroStreak® applicator and the alpha-prototype robotic instrument has been completed and proof of principle of the invention was established. Preliminary testing of the MicroStreak® applicator confirmed its ability to inoculate high concentration bacterial suspensions on to standard agar plates such that large numbers of isolated colonies form after incubation.

The quality of results exceeds traditional techniques for microbial colony isolation. The fast sample time achieved for inoculation and spreading confirmed the commercial potential of the MicroStreak® technology.

With the successful performance outcomes for the MicroStreak® applicator and alpha-prototype robotic instrumentation, investigation progressed into the development of commercial MicroStreak® systems for the diagnostic microbiology market:

- targeted market research;
- identification of commercial partners to develop and manufacture laboratory instrumentation systems incorporating the MicroStreak® technology; and
- investigation of potential distributors.

Invetech Pty Ltd of Mt Waverley, Victoria, was appointed as the technology development contractor. The objective of the first stage of commercial development will be to compile detailed specifications for a preferred instrument concept, develop concept options selecting preferred implementation and commence experimental exploration of key risks as input to the next phase of beta-prototype development and testing.

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Review of Operations (cont)

APOMAB® Research

APOMAB® detects a highly specific and exclusive marker of dead cells, in particular dead cancer cells, both in the body and in the laboratory. Recognition of dead cancer cells can be applied to:

- the development of new cancer diagnostic products;
- localisation of cancer and targeting of treatments;
- non-invasive monitoring of cancer treatments;
- the development of new therapeutic anti-cancer products; and
- other apoptosis-based diseases e.g. stroke, heart attack, organ transplant rejection.

APOMAB® technology represents a particularly significant development because the specific detection of apoptotic cancer cells remains a technically challenging task that is not readily solved using alternative technologies.

The main current problem with cancer treatment is lack of specificity. It is possible to administer doses of radiation or chemotherapy capable of killing all cancer cells, but normal cancer cells are also killed. Using APOMAB® to diagnose chemotherapy-induced apoptosis of cancer cells may spare some patients unnecessary and potentially toxic cancer treatment and may indicate improved survival for those patients who have chemotherapy-responsive cancer.

There is also a great need for new techniques that would allow specific targeting of the anti-cancer therapy just to the cancer cells. Cancers have a high content of macrophages which overall tend to promote the growth of cancer. APOMAB® preferentially associates in the body with macrophages that engulf apoptotic cells and contribute to the healing of tissue damage. Hence an opportunity exists to develop APOMAB® as a vehicle for cancer therapeutics.

The APOMAB® Research Plan spans approximately two years for Proof of Concept research, with anticipated completion by the end of 2005.

Research objectives for the period aimed to evaluate the potential for APOMAB® in:

- Therapeutic Product Applications: Laboratory and animal studies to finalise the rationale for development of APOMAB® as a tumour targeting agent; and
- Diagnostic Product Applications: Laboratory and animal studies to develop a marker for chemotherapy responsiveness (lung carcinoma).

During the period July 2004 to July 2005, research progressed against milestones.

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Financial Position

The net assets of the company have increased by $700,127 from 30 June 2004 to $700,127 in 2005. The increase has resulted from the following factors:

- Share and option issues after the costs associated with those raising $1,004,199.
- Ongoing operating expenditure by the company as it proceeds to the commercialisation of its MicroStreak® technology.
- The company continued to outlay expenditure on the securing and ongoing development of its MicroStreak® technology as well as progressing research on its APOMAB® technology, the further cost of which was $352,775

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the company occurred during the year ended 30 June 2005:

- On 19 July 2004 the company issued 100,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.
- On 9 August 2004 the company issued 560,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.
- On 12 August 2004, the company issued a letter of intent to ARRM to engage to develop and prove the concept of automated plate and inoculating streaking and to develop and alpha prototype robotic by 30 November 2004. This was duly completed. Legal and physical possession of the prototype was duly taken by the company.

  The cost of the prototype appears on the statement of financial position at a cost of $147,455. The directors have assessed the carrying value and are satisfied that it is not higher than recoverable value.
- On 17 August 2004 the company issued 980,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.
- On 30 August 2004 the company issued 100,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.
- On 31 August 2004 the company issued 1,000,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.
- On 13 September 2004 the company issued 40,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.
- On 29 September 2004 the company issued 100,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.

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Significant Changes in State of Affairs (cont)

- On 21 October 2004 the company issued 380,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents.

- On 21 October 2004 the company issued 301,000 ordinary shares at 7.5 cents each with a free attaching option expiring 30 June 2013 with an exercise price of 15 cents.

- On 3 November 2004 the company issued 348,000 ordinary shares at 7.5 cents each with a free attaching option expiring 30 June 2013 with an exercise price of 15 cents.

- On 9 November 2004 the company issued 120,000 ordinary shares at 7.5 cents each with a free attaching option expiring 30 June 2013 with an exercise price of 15 cents.

- On 10 November 2004 the company issued 2,000,000 ordinary shares at 5 cents each with a free attaching option expiring 30 June 2012 with an exercise price of 10 cents to directors of the company.

- On 17 November 2004 the company issued 539,800 ordinary shares at 7.5 cents each with a free attaching option expiring 30 June 2013 with an exercise price of 15 cents.

- A heads of agreement subject to contract between the company and Advanced Rapid Robotics Manufacturing (ARRM) as the basis for further agreements under which ARRM Technology, ARRM Software and its commercialisation experience in Relevant Technology are used to develop, manufacture, commercialise and distribute MicroStreak® products was signed on 17 November 2004. This agreement expired on 30 November 2004 and no contract was entered.

- On 19 November 2004 the company issued 427,800 ordinary shares at 7.5 cents each with a free attaching option expiring 30 June 2013 with an exercise price of 15 cents.

- The company having signed an option agreement for the right to secure a worldwide exclusive licence agreement to a new technology called MicroStreak® and paying $51,000 subsequently on 1 December 2004 signed a Technology Licence Agreement to exercise that option for this technology a sum of $120,000 was paid for this.

- On 20 December 2004 the company entered into an agreement with Martin Place Securities Pty Ltd to underwrite a proposed issue of shares by the company by way of Initial Public Offering with a prospectus for 4,400,000 new shares with a free attaching option at an issue price of 15 cents each. Provision was made to allot a further 1,300,000 shares in the event of oversubscriptions.

- On 8 April 2005 the company issued 4,736,000 ordinary shares each at 15 cents with a free attaching option expiring 30 June 2013 with an exercise price of 15 cents pursuant to the capital raising under the initial public offering.

- On 8 April 2005 the company issued 1,240,000 shares at 15 cents each with a free attaching option expiring 30 June 2013 with an exercise price of 15 cents to Martin Place Securities Pty Ltd and or their nominee as payment for underwriting commission.

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Significant Changes in State of Affairs (cont)

- The company listed on the Newcastle Stock Exchange on 12 April 2005.
- ARRM was placed into voluntary administration on 19 April 2005. The company has ceased any negotiation for further dealings with ARRM.

After Balance Date Events

On 5 July 2005, the company contracted with Invetech Pty Ltd to undertake the process for designing, developing and transferring the MicroStreak® instrument to manufacturing. The instrument concept and program planning document outputs, assuming commencement on 6 July 2005, it is expected that completion of stage I of a recommended four stage process will be completed on 28 September 2005.

The total development budget for stage I is $297,400 and is due to be paid by 28 September 2005.

An announcement was made to the Newcastle Stock Exchange on 1 June 2005 that there would be a bonus issue of 2 shares for every 3 held as at 30 September 2005.

On 12 August 2005, the company approved a new consulting agreement with L H Guthrie of Lusld Pty Ltd for consulting services amounting to $150,000 per annum exclusive of GST together with a bonus payment of $40,000 upon attainment of ASX listing.

On 22 August 2005 the company gave notice of a general meeting of shareholders to be held on 22 September 2005. The purpose of the meeting is to obtain all the necessary shareholder approvals to restructure the company. Legal fees in relation to the restructure are estimated to be $40,000.

Future Developments, Prospects and Business Strategies

LabTech Systems Ltd (LTS) was formed as a research company to raise equity to provide funds to further research two innovative technologies in: cancer management (APOMAB®); and laboratory automation (MicroStreak®). Both research projects are progressing and the core technologies are meeting performance hurdles.

It is anticipated that The APOMAB® research project will reach completion of proof of concept research towards the end of 2005. It will then move into a new phase comprising preclinical research for therapeutic applications of the technology and development activities for potential diagnostic applications of APOMAB®.

MicroStreak® is progressing towards full commercialisation. The company proposes to enter into a Technology Development Agreement with Invetech to complete the commercial development and transfer to production of laboratory instrumentation incorporating the MicroStreak® applicator for automation of microbiology processing.

The Directors are considering appropriate strategies for funding and full commercialisation of both technologies, which are now at different stages of development and address different markets. It is proposed that a new company be set up, to be known as Apomab Ltd, and that APOMAB® technology be transferred into that company. This will allow LabTech Systems Ltd to focus on automation for microbiology processing. Apomab Ltd will have cancer management as its focus. A general meeting of shareholders will be held on 22 September 2005 to consider and if thought fit pass the special resolution that allows for the restructure of the company. Legal fees in relation to the restructure are estimated to be $40,000.

A successful listing of Apomab Ltd on NSX would raise $660,000 for further preclinical research and development studies and intellectual property management. Apomab Ltd intends to exercise its option over the APOMAB® technology, entering into a Licence Agreement with Medvet Science Pty Ltd, in late 2005.