

CBio Limited

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2003
ACN NO. 094 730 417**

CBio Limited Directors' Report

Your directors submit their report for the year ended 30 June 2003.

DIRECTORS

The names of the directors of the company in office during the year and until the date of this report were Stephen Jones (Chairman), Wolf Hanisch and Stephen Goodall.

PRINCIPAL ACTIVITIES

The principal activities during the year of the company were research, product development and clinical trials of a potential therapeutic drug called cpn10. There was no significant change in the nature of these activities during the year.

RESULTS AND DIVIDENDS

The loss after tax of the company for the year ended 30 June 2003 was \$2,123,814. For the previous year ended 30 June 2002 the loss after tax of the company was \$2,374,316.

No dividend was proposed or paid.

REVIEW OF OPERATIONS

The previous year has been one of achieving scientific and commercial benchmarks thus making great strides in the development of cpn10 as a potential human therapeutic.

The year has seen significant improvements in our understanding of the role of cpn10 as a potent modulator of immune activity. We are now very confident that it plays a central role in the "innate immune system". The innate immune system provides the first line of defence against any infection and is a non-specific response (unlike an antibody/immunisation response). Cpn10 appears to temper the inflammatory process initiated by infection or auto-immune processes.

Cpn10 may have enormous beneficial implications in controlling immune mediated inflammation as is commonly seen in auto-immune diseases.

Toxicology and pharmaco-kinetic studies in animals have demonstrated its safety in these models.

Similarly, animal model studies in toxemia and bone marrow transplantation have supported published data in the "EAE" model.

The Scientific Advisory Committee reviews and reports have given the company increased confidence in developing cpn10 as a human therapeutic. There is now a clearer clinical rationale and imperative for going into human trials than there was a year ago.

To this end CBio will seek ethics committee approval on July 17 2003 at St Vincent's Hospital in Sydney for a Phase I safety trials in humans. Human trials will begin in September and may last up to 6 months. Significantly, the general confidence in the product is leading to a growing view that this trial should perhaps be in patients suffering measurable but not significant inflammatory disease. Should this eventuate, we will be looking not only for safety data but also for hints of biological activity consistent with the animal data.

The upcoming year will be an exciting period for CBio. Subject to a successful outcome to the Phase I trials, CBio will seek to raise the funds for Phase 2 efficacy trials. Subject to the availability of funding, we intend to do these Phase 2 efficacy trials in a number of auto-immune indications including Multiple Sclerosis and organ transplantation.

CBio Limited
Directors' Report continued

The demonstration of safety alone will add significant value to CBio whilst confirmation of efficacy in a Phase 2 trial will further greatly enhance CBio's value to both investors and potential partners.

In order to provide for further ongoing business opportunities for CBio to develop into a successful biopharmaceutical company, we are investigating licensing a number of new biopharmaceutical products complementary to cpn10.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of the company's affairs during the financial year other than discussed in the Review of Operations.

INDEMNITY

In accordance with the constitution of CBio Limited:

Every Director, Secretary, Manager, Accountant, Trustee or other person employed in the business of the company shall be indemnified by the company against, and it shall be the duty of the directors out of the funds of the company to pay, all costs, losses and expenses for which any such Director, Secretary, Manager, Accountant, Trustee or other person as aforesaid may become liable by reason of any contract entered into or act or deed done by him as such Director, Secretary, Manager, Accountant, Trustee or servant in any way in the proper discharge of his duties, unless such costs, losses and expenses shall be caused or contributed to by his own negligence, default, breach of duty or breach of trust.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Other than the matters listed below, there have not been any matters or circumstances that have arisen since the end of the year, that have significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in financial years after the financial year.

CBio intends to commence a human phase I clinical trial with Cpn10 in the second quarter of the 2003-4 financial year. Activities of the past year have been focused on conducting this study to demonstrate the safety of cpn 10. Successful results in this study would result in the company pursuing manufacturing scale up and clinical studies for specific disease states. These subsequent activities would be expected to occur in the second half of the 2003-4 financial year.

DIRECTORS' MEETINGS

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

Number of Meetings held:	<u>11</u>
Number of Meetings attended	
Stephen Jones (Chairman)	10
Wolf Hanisch	11
Stephen Goodall	10

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

Mr. Stephen Jones, (Non-Executive Chairman) (appointed 11 October 2000)

Mr Jones is a corporate recovery and turn-around specialist. Mr Jones retired as Chairman of Greyhound Pioneer Australia Ltd, a position he held from July 1996 in September 1999. Initially as CEO, he took this loss maker to its maiden profit in 1998. Previously, he turned around credit card provider International Card Systems Australia Ltd, where he took control and was Executive Chairman in 1992, leaving the company profitable in 1994. He is Chairman of Psiron Ltd, Australia Technology Innovation Fund Limited and Australian Biofund Limited (Hong Kong), InJet Digital Aerosols Ltd and a former member of the Queensland Governments Innovation Council and the Bioindustries Advisory Group.

Dr Wolf Hanisch, CEO and Executive Director (appointed 11 October 2000)

Dr Hanisch's background is in the biotech healthcare industry in California and Australia. He has a broad background in product and project commercialisation, new product and process development complemented by extensive knowledge of international regulatory requirements.

He was directly involved in the successful Initial Public Offering (IPO) of IDEC Pharmaceuticals Inc (now a \$7 billion company) as well as having had significant exposure to a number of other IPOs through his linkages to the California biotechnology and venture community. He has worked on the clinical development of a number of biotech drugs now approved for use worldwide including beta-Interferon (Betaseron), interleukin (Proleukin), TNF and monoclonal antibodies.

He maintains close contact with the international biotechnology and pharmaceutical industry. He is a directors and CEO of CBio Limited and non-executive director of Analytica Ltd, Injet Digital Aerosols Ltd and Agribio Pty Ltd.

Stephen Goodall COO and Executive Director (appointed 11 October 2000)

Mr Goodall has been involved in biotechnology product design and development for the past 17 years. He was with Agen Biomedical Ltd for 11 years where he managed the development and manufacture of a range of immunoassays for the medical and veterinary world markets including products for Human DVT and Canine Heartworm, both of which have been world leading products. He has worked with Gradipore in Sydney to establish their production and quality systems for precast gel products and Buderim Ginger Ltd to establish a trial enzyme product. He recently established the R&D programs for Vapotronics Ltd and assisted in establishing the company in the US.

He has considerable experience in project and organisation management for biotechnology products and programs and has experience in regulatory compliance.

Signed in accordance with a resolution of directors.

S. Jones
Chairman
Brisbane

Date: September, 2003

Corporate Governance Statement

Whilst the company is not listed on a stock exchange the Board strongly agrees with the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council and strived to meet the standard expected on a publicly traded entity. The directors are however realistic in acknowledging the size and nature of the company and have modified where they deem applicable the best practice standards as laid down by the ASX. The Best Practice Recommendations not adopted or specific comments thereon are as follows:

Role of the Board and Management

The Board is responsible for the Corporate Governance of the company including the setting and the monitoring of the objectives, goals and corporate direction. Due to the size of the company with 2 of the 3 directors being executive directors, there are no formal statements as to the delegated authority of management, however the Board closely interacts with the management of the company and has established adequate systems of internal control, assesses, monitors and manages business risk, and ensures adherence to appropriate ethical standards.

Structure of the Board

Directors' qualifications and experience are outlined in the Directors' Report.

Due to the early phase in development of the company the company does not believe it appropriate to maintain a structure where there is a majority of independent directors. The company's directors are the founders of the company and significant shareholders. As the company grows and the valuation of the company's intellectual property increases the structure of the board will change and greater levels of independence will be achieved.

Due to the size of the company, it is not considered necessary to maintain a Nomination Committee. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board considers candidates with the appropriate expertise and experience. The Board then appoints the most suitable person who shall hold office until the conclusion of the next following annual general meeting of the company and shall be eligible for election at such annual general meeting. One third of the directors shall retire from office and be eligible for re-election at every general meeting; and there are no share qualifications for a director.

Each Director has the right to seek independent professional advice regarding material matters concerning the Company at the Company's expense after notifying the Chairman.

Ethical and Responsible Decision-making

The Company does not have a formal code of conduct however it recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics. Directors and officers are expected to act in accordance with the law and with the highest standards of propriety.

Safeguard Integrity in Financial Reporting

The Company does not have a formally constituted Audit Committee of the Board of Directors. The Board undertakes the functions of the Audit Committee, such as the establishment and maintenance of the framework of internal control and appropriate ethical standards for the management of the economic entity.

CBio Limited

Corporate Governance (continued)

Timely and Balanced Disclosure

The Board through the production of regular shareholder newsletters, the maintenance of a web site, the distribution of the annual report to all shareholders, and the holding of an annual shareholders meeting where shareholders are encouraged to participate, strives to keep shareholders fully informed of developments within the company in a cost effective manner.

Shareholders' Rights

The Company does not have a formal shareholder communications strategy. However the Board is conscience of the importance of effective shareholder communication and makes use of its Corporate Website and requests that the External Auditor attends general meetings.

Recognise and Manage Risk

No formal Risk Management profiles, policies and procedures have been adopted. However the Board meets on a regular basis and as part of the ongoing review of performance, current and possible future business risks are identified. Once a business risk is identified, appropriate action is planned and instigated by the Board. The results of the action plan are constantly reviewed and corrective action is taken as required.

Due to the size of the Company, an Internal Audit function has not been implemented.

The Chief Executive Officer and Chief Financial Officer report to the Board on the integrity of financial statements and the effectiveness of internal compliance and control systems.

Performance Enhancement

The Board does not have a Nomination Committee and has not adopted formal Performance Enhancement procedures, as the Board undertakes ongoing performance reviews as part of its regular review of Company activities.

Remuneration

Directors' and Senior Executive Emoluments are outlined in the Directors' Report.

Due to the size of the Company a Remuneration Committee has not been established. The Board determines the remuneration packages for Executive Directors and senior employees. Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior employees. Remuneration packages currently paid include, fixed, performance-based and equity based components.

The Company in general meeting sets the remuneration of the Non-Executive Directors. The only retirement benefits payable to Non-Executive Directors are statutory superannuation payments.

Interests of Stakeholders

The Company does not have a formal Code of Conduct covering obligations to legitimate stakeholders. However, the Board is fully aware of its obligations for Public or Social Accountability based on notions of legitimacy, fairness and ethics.

Independent audit report to members of CBio Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for CBio Limited (the company), for the year ended 30 June 2003.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of CBio Limited at 30 June 2003 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As described in Note 1 there is significant uncertainty whether the company will be able to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the entity not be able to continue as a going concern.

Ernst & Young

Michael J. Reid
Partner
Brisbane
11 September 2003

CBio Limited
Directors' Declaration

In accordance with a resolution of the directors of CBio Limited, we make the following statement:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) give a true and fair view of the company's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
 - (ii) comply with Accounting Standards and Corporations Regulations 2001; and
- (b) Subject to the inherent uncertainty regarding continuation as a going concern as expressed in note 1 to the financial report, that is, the ability of the company to pay its debts as and when they fall due, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

S. Jones
Chairman

Brisbane
Date: September 2003

CBio Limited
Statement of Financial Performance
Year ended 30 June 2003

	Notes	2003 \$	2002 \$
Revenues from Ordinary Activities	2	22,036	39,756
Borrowing costs expense	3 a	(70,000)	(78,796)
Administrative expenses	3 b	(750,590)	(644,569)
Write down of intellectual property	3 c	-	(1,125,000)
Research and development		(1,214,316)	(273,345)
Patent costs		(28,092)	(110,190)
Marketing expenses		(82,852)	(182,172)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(2,123,814)	(2,374,316)
Income tax expense relating to ordinary activities	4	-	-
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE AND NET LOSS		(2,123,814)	(2,374,316)
Changes in equity reserves during the year		-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF CBIO LIMITED		(2,123,814)	(2,374,316)

CBio Limited
Statement of Financial Position
At 30 June 2003

	Notes	2003 \$	2002 \$
CURRENT ASSETS			
Cash assets	15(a)	136,605	248,918
Receivables	5	1,757,089	1,151,196
Other Current Assets	6	31,632	19,164
TOTAL CURRENT ASSETS		<u>1,925,326</u>	<u>1,419,278</u>
NON-CURRENT ASSETS			
Plant and equipment	7	138,611	63,250
Intangible Assets	8	-	-
TOTAL NON-CURRENT ASSETS		<u>138,611</u>	<u>63,250</u>
TOTAL ASSETS		<u>2,063,937</u>	<u>1,482,528</u>
CURRENT LIABILITIES			
Payables	9	529,028	558,456
Provisions	10	6,121	60,112
TOTAL CURRENT LIABILITIES		<u>535,149</u>	<u>618,568</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities	11	1,000,000	1,125,000
TOTAL NON-CURRENT LIABILITIES		<u>1,000,000</u>	<u>1,125,000</u>
TOTAL LIABILITES		<u>1,535,149</u>	<u>1,743,568</u>
NET ASSETS		<u>528,788</u>	<u>(261,040)</u>
EQUITY			
Contributed equity	12	8,536,861	5,623,219
Accumulated losses	13	(8,008,073)	(5,884,259)
TOTAL EQUITY		<u>528,788</u>	<u>(261,040)</u>

CBio Limited
Statement of Cash Flows
Year Ended 30 June 2003

	Notes	2003 \$	2002 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(2,098,713)	(1,122,095)
Interest received		22,611	36,895
NET CASH FLOWS USED IN OPERATING ACTIVITIES	15(b)	<u>(2,076,102)</u>	<u>(1,085,200)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(127,022)	(58,996)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(127,022)</u>	<u>(58,996)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from/(purchase of)short term deposits		1,067,488	(788,890)
Proceeds from issue of shares		1,178,000	2,197,000
Proceeds from share issue allotted post year end		-	60,000
Payments for convertible note repayment		(125,000)	-
Payments of share issue costs		(29,677)	(83,671)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>2,090,811</u>	<u>1,384,439</u>
NET INCREASE/(DECREASE) IN CASH HELD		(112,313)	240,243
CASH AT BEGINNING OF THE FINANCIAL PERIOD		<u>248,918</u>	<u>8,675</u>
CLOSING CASH CARRIED FORWARD	15(a)	<u>136,605</u>	<u>248,918</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with the historical cost convention, except where assets have been revalued. Cost in relation to assets represents the cash amount paid or the fair value of the assets given in exchange.

The financial report is general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report is prepared on a going concern basis. The Company has incurred operating losses and operating cash outflows since inception in the conduct of research and development activities and has relied on raising additional capital to fund its operations. The company's prospectus dated 29 June 2001, which closed 26 July 2002, was fully underwritten. The ability of the underwriter to complete its obligations under the capital raising is dependent on it first completing its own capital raising. Should the company not receive these committed funds, there is significant uncertainty whether the company will be able to continue as a going concern and be able to pay their debts as and when they fall due. Accordingly, the company may be required to extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the entity not be able to continue as a going concern.

Recoverable Amount

Non-current assets are not revalued to an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value.

Plant and Equipment

Cost: Items of property, plant and equipment are carried at cost less accumulated depreciation.

Depreciation: Depreciation is provided on a straight line basis on all property, plant and equipment. Major depreciation periods are:

Plant and equipment: 3 to 5 years

Inventories

Supplies and consumables are valued at the lower of cost and net realisable value.

Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Intangibles

Intellectual Property

The purchase price of Intellectual Property has been capitalised and a full provision has been made for the purchase price due to the uncertain nature of the results of the on-going research and development.

Patents and licences are expensed when incurred.

Research and Development Expenditure

Amounts incurred on research and development activities are expensed as incurred, except to the extent that such costs are expected beyond any reasonable doubt to be recoverable.

Taxes

Income Tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

1. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
2. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash

Cash on hand and in banks and short term deposits are stated at the lower of cost and net realisable value.

For the purpose of the Statement of Cash Flow, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense on an accrual basis.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

Interest

Control of the right to receive consideration for the provision of, or investment in, assets has been attained.

Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

CBio Limited
Notes to the Financial Statements (continued)
Year ended 30 June 2003

	2003	2002
	\$	\$
2. REVENUES FROM ORDINARY ACTIVITIES		
Revenues from non-operating activities		
Interest- other persons/corporations	20,408	39,098
Other income	1,628	658
Total revenues from ordinary activities	<u>22,036</u>	<u>39,756</u>

3. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax has been determined after:

(a) Expenses from

Borrowing costs:

Interest expense on Convertible Note	70,000	78,750
Interest Expense- Other	-	46
	<u>70,000</u>	<u>78,796</u>

(b) Administration expenses

Consulting fees	367,112	431,199
Depreciation	51,661	3,302
Operating lease rental – minimum lease payments	-	11,000
Office rental	68,309	15,000
Legal and compliance costs	79,700	52,321
Other costs	183,808	131,747
	<u>750,590</u>	<u>644,569</u>

(c) Significant Items

Write down of intellectual property	-	1,125,000
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As the recovery of intellectual property is not certain the Directors have raised a provision against the balance. As a result, an expense has been incurred in the Statement of Financial Performance amounting to \$Nil (\$1,125,000 for year ended 2002). Refer to Note 8 for more details.

CBio Limited
Notes to the Financial Statements (continued)
Year ended 30 June 2003

	2003	2002
	\$	\$
4. INCOME TAX		
The prima facie tax on operating loss differs from the income tax provided in the financial statements as follows:		
Prima facie tax on operating loss	(637,144)	(709,253)
Tax effect of permanent differences	(138,742)	338,850
Over/under provision in prior period	(282,917)	900,000
Adjustment for change of tax rate to 30%	-	130,318
Tax losses not recognised	1,058,803	659,915
Total income tax provided on operating loss	<u>-</u>	<u>-</u>
Future income tax benefits arising from tax losses are not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.	1,281,535	318,068

The future income tax benefit will be obtained if:

- a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- c) no changes in tax legislation adversely affect the company in realising the benefit.

5. RECEIVABLES (Current)

Short term deposits	-	1,067,488
GST Receivable	41,334	77,750
Amount owing by Underwriter (i)	1,665,000	-
Other debtors	50,755	5,958
	<u>1,757,089</u>	<u>1,151,196</u>

Terms and conditions

GST Receivable, Amount owing by Underwriter and Other debtors are non-interest bearing.

- (i) Amount owing by Underwriter on Share Issue refer to note 12(b)

CBio Limited
Notes to the Financial Statements (continued)
Year ended 30 June 2003

	2003 \$	2002 \$
6. OTHER CURRENT ASSETS (Current)		
Consumables at cost	31,632	19,164
7. PLANT AND EQUIPMENT		
Plant and Equipment		
At cost	193,790	66,768
Accumulated depreciation	(55,179)	(3,518)
	<u>138,611</u>	<u>63,250</u>
Movement in carrying value		
Carrying value at the beginning of the year	63,250	7,556
Additions	127,022	58,996
Depreciation	(51,661)	(3,302)
Carrying value at the end of the year	<u>138,611</u>	<u>63,250</u>
8. INTANGIBLES		
Intellectual property	4,125,000	4,125,000
Provision for recoverability (i)	(4,125,000)	(4,125,000)
	<u>-</u>	<u>-</u>

(i) On 14 May 2001, the company entered into a Deed of Assignment with CSL Limited and a Deed of Agreement and Variation with UniQuest Pty Limited. Under the Deed of Agreement and Variation, CBio's obligations relating to the payment of future royalty streams and milestone payments were varied in return for a convertible note with a face value of \$1,125,000 (refer note 11 for further details) and the issue of 3,000,000 CBio shares. The Directors have provided against the notional book value of the intellectual property purchased given the risks and uncertainties associated with the continued research and development and ultimate commercialisation of this asset.

CBio Limited
Notes to the Financial Statements (continued)
Year ended 30 June 2003

	2003	2002
	\$	\$
9. PAYABLES (Current)		
Trade payables	445,611	412,090
Directors and director related entities	83,417	86,366
Deposits in advance (i)	-	60,000
	<u>529,028</u>	<u>558,456</u>

(i) Deposits in advance: This represents share application funds received prior to the end of the financial year for which shares had not yet been allotted. Shares were allotted for these share applications on 26 July 2002.

Terms and conditions of Payables

Trade creditors are non-interest bearing and are normally settled on 30-day terms.

Directors and Director related entities are non-interest bearing and are payable for services provided in the course of ordinary activities. Details of payments made to directors are set out in Note 17.

10. PROVISIONS (Current)

Provisions for employee benefits (i)	6,121	7,293
Provisions - other	-	52,819
	<u>6,121</u>	<u>60,112</u>

(i) The entity had 12 employees as at 30 June 2003

11. INTEREST BEARING LIABILITIES (Non-current)

Convertible note	1,000,000	1,125,000
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On 14 May 2001 a convertible note with a face value of \$1,125,000 was issued as part consideration for the purchase of intellectual property. Refer Note 8 for further details. Interest is payable at a rate of 7% per annum. The holder may convert the whole or any part of any sum outstanding from time to time under the convertible note to ordinary shares in the capital of CBio Limited. The convertible note is convertible to CBio shares on a one dollar per share basis, subject to adjustments for fluctuations in the Australian dollar exchange rate to United States currency. CBio Limited is required to make payments to the holder under certain terms and conditions as outlined in the Deed of Agreement between the holder and CBio Limited.

12. CONTRIBUTED EQUITY

(a) Issued and paid up capital

Ordinary shares fully paid	8,536,861	5,623,219
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12. CONTRIBUTED EQUITY (continued)

(b) Movements in shares on issue

	2003		2002	
The following share issues were made during the year	Number of shares	\$	Number of shares	\$
Beginning of the financial period	12,311,099	5,623,219	10,114,099	3,550,209
Issued during the period				
- prospectus subscriptions (i)	328,000	328,000	2,197,000	2,197,000
- underwriter shortfall (ii)	810,000	810,000	-	-
- private placement	100,000	100,000	-	-
- underwriters shortfall (iii)	1,665,000	1,665,000	-	-
less transaction costs (iv)	-	10,642	-	(123,990)
- bonus issue (v)	60,000	-	-	-
End of the financial period	15,274,099	8,536,861	12,311,099	5,623,219
Shares issued subsequent to year end	-	-	328,000	328,000

- (i) During the year the company issued \$1 shares under a Prospectus and Underwriter allotment.
- (ii) Shares issued under an underwriting agreement 810,000 shares and private issue 100,000 shares at \$1 per share.
- (iii) Shares issued under an underwriting agreement on 26 June 2003 at \$1 per share on a restricted basis and held in escrow until consideration of \$1,665,000 has been paid by the underwriter. Under the terms of the revised underwriting agreement, the \$1,665,000 is payable in minimum monthly instalments of \$150,000, commencing 1 July 2003.
- (iv) Transaction costs of \$10,642 comprise \$29,677 less write back of prior year provision for underwriting costs of \$40,319.
- (v) A 1:1 bonus share issue at nil consideration was made to two shareholders in accordance with the 1: 1 bonus issue made to all shareholders in June 2001. This bonus issue should have been made in a prior period.

Terms and Conditions of Ordinary shares:

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held.

12. CONTRIBUTED EQUITY (continued)

(c) Movements in options on issue

	2003		2002	
The following option issues were made during the year	Number of options	\$	Number of options	\$
Beginning of the financial period	1,500,000	-	1,500,000	-
Options issued during the year to eligible employees and consultants under the employee share option plan exercise price \$1 (i)	896,000	-	-	-
Options issued to Psiron Limited, exercise price \$1, expiring 25 February 2005 under the terms of a diagnostic test agreement entered into by the companies.	600,000	-	-	-
End of the financial period	2,996,000	-	1,500,000	-

Options issued subsequent to year end under the employee share scheme. (i)	-	-	51,000	-
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- (i) 51,000 options expiry date 26 July 2005
- (ii) 680,000 options expiry date 1 December 2007
- (iii) 165,000 options expiry date 23 June 2008

	2003 \$	2002 \$
13. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the year:	5,884,259	3,509,943
Loss for the year	2,123,814	2,374,316
Accumulated losses at the end of the year	8,008,073	5,884,259

14. EXPENDITURE COMMITMENTS

Lease expenditure commitments:

Operating leases (non-cancellable)

- not later than one year	-	21,692
- later than one year and not later than five years	-	-
- aggregate lease expenditure contracted for at balance date	-	21,692

CBio Limited
Notes to the Financial Statements (continued)
Year ended 30 June 2003

	2003 \$	2002 \$
15. CASH FLOWS		
(a) Reconciliation of cash		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash at Bank	136,605	248,918
(b) Reconciliation of net cash flows from operating activities to operating loss after income tax .		
Operating loss after taxation	(2,123,814)	(2,374,316)
Non Cash items		
Depreciation	51,661	3,302
Provision for recoverability of intellectual property (c)	-	1,125,000
Change in assets and liabilities		
(Increase)/decrease in current receivables	(8,381)	(60,215)
(Increase)/decrease in inventories	(12,468)	(19,164)
Increase/(decrease) in payables	30,572	220,400
Increase/(decrease) in provisions	(13,672)	19,793
Net cash flows used in operating activities	<u>(2,076,102)</u>	<u>(1,085,200)</u>

(c) Non- cash transactions.

In the prior period the intellectual property was written down by \$1,125,000 as the future benefits are uncertain Refer to note 8 for further details.

16. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors of the company for:

- an audit of the financial report of the company	13,338	17,350
- other services in relation to the company	20,000	13,200
	<u>33,338</u>	<u>30,550</u>

	2003	2002
	\$	\$
17. RELATED PARTY TRANSACTIONS		
(a) The directors of CBio Limited during the year were:		
Stephen Jones (Chairman), Wolfgang Hanisch (Executive Director), Stephen Goodall (Executive Director)		
(b) Total income paid, or payable to directors of the company from the company and any related body corporate:		
\$		
10,000 - 19,999	-	1
50,000 - 59,999	1	-
90,000 - 99,999	-	1
140,000 - 149,999	2	1

The aggregate remuneration of the directors referred to in the above bands was \$330,000. For the previous year ended 30 June 2002 aggregate remuneration was \$253,166.

(c) Transactions with Directors and Director Related Entities

Included in (b) above were the following payments to directors. Consultant fees of \$14,000 were paid to Mr Stephen Jones during the period under normal commercial terms (prior period \$14,000). Consultant fees of \$140,000 were paid to Ijong Pty Ltd during the period ended 30 June, 2003 under normal commercial terms (prior period \$140,000). Ijong Pty Ltd is a company of which Mr Wolf Hanisch is a director. Consultant fees of \$140,000 were paid to Process Biotech during the period. These were made under normal commercial terms (prior period \$91,875). Process Biotech is a company in which Mr Stephen Goodall is a director.

At 30 June 2003, the balance outstanding to related parties is \$83,417 (prior period \$86,366). These payables are in relation to consulting fees outstanding to director related entities and were made under normal commercial terms.

(d) Shares and share options issued to and held by Directors either directly or through director related entities during the period:

	2003		2002	
	Number of Ordinary Shares	Number of Options	Number of Ordinary Shares	Number of Options
Stephen Jones	1,190,033	500,000	1,190,033	500,000
Wolfgang Hanisch	1,190,033	500,000	1,190,033	500,000
Stephen Goodall	1,190,033	500,000	1,190,033	500,000

18. SUBSEQUENT EVENTS

Other than the matters listed below, there have not been any matters or circumstances that have arisen since the end of the period, that have significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in financial years after the financial period.

19. SEGMENT INFORMATION

The company operates solely as a research and development company in the biotechnology industry in Australia.

20. COMMITMENTS

On 30 March 2001 the company entered into a Royalty Agreement with CSL Limited (“CSL”). This agreement was entered into contemporaneously with the Deed of Assignment, an agreement which assigned CSL’s rights to its Research Agreement with UniQuest Pty Limited to CSL for payment of \$125,000. The Royalty Agreement stipulates that CBio is to pay royalties to CSL after commercialisation of products developed under the Research Agreement.

Subsequent to the end of the year it is expected that a contract will be entered into for approximately \$450,000 to commence Phase 1 Clinical trials.

21. FINANCIAL INSTRUMENTS

a) Credit Risk

The company’s maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

b) Net Fair Values

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial report.

c) Interest Rate Risk

The Company’s exposure to interest rate risk, which is the risk that a financial instrument’s value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on those financial assets and financial liabilities is as follows:

CBio Limited
Notes to the Financial Statements (continued)
Year ended 30 June 2003

Financial Instruments as at 30 June 2003

**c) Interest Rate
Risk continued**

	Weighted Average	Floating Interest rate	Fixed Interest maturing within 1 year	Fixed Interest maturing within 1-2 years	Non- Interest Bearing	Total
Financial Assets						
- Cash	3.25%	136,605	-	-	-	136,605
- Receivables	-	-	-	-	1,757,089	1,757,089
Total Financial Assets		136,605	-	-	1,757,089	1,893,694

**Financial
Liabilities**

Trade and other payables		-	-	-	529,028	529,028
Convertible Note	7%	-	-	1,000,000	-	1,000,000
Total Financial Liabilities		-	-	1,000,000	529,028	1,529,028

Financial Instruments as at 30 June 2002

	Weighted Average	Floating Interest rate	Fixed Interest maturing within 1 year	Fixed Interest maturing within 1-2 years	Non- Interest Bearing	Total
Financial Assets						
- Cash	1%	248,918	-	-	-	248,918
- Receivables	3.6%	1,067,488	-	-	83,708	1,151,196
Total Financial Assets		1,316,406	-	-	83,708	1,400,114

Financial Liabilities

Trade and other payables		-	-	-	558,446	558,446
Convertible Note	7%	-	-	1,125,000	-	1,125,000
Total Financial Liabilities		-	-	1,125,000	558,446	1,683,446

The company has minimal exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at period end.

22 CORPORATE INFORMATION

CBio Limited is a company limited by shares that is incorporated and domiciled in Australia.

The registered office of CBio Limited is located at:

17 Wakefield Street, Alderley, Brisbane, Qld 4051

The principal activities during the period were the research and development of the cpn10 and associated technologies.