

# CBio Limited

ABN 76 094 730 417

## HALF-YEAR FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

## CBIO LIMITED

Corporate Information  
For the half-year ended 31 December 2007

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### Directors

Mr. Stephen Jones	Executive Chairman
Dr. Peter Corr	Non-executive director
Dr. Göran Ando	Non-executive director
Prof. John Funder	Non-executive director
Dr. Michael Monsour	Non-executive director
Dr. Dennis Feeney	Executive director
Mr. Jason Yeates	Managing director
Mr. Stephen Streeter	Non-executive director

### Company Secretary

Mr. Ben Graham

### Registered and Principal Office

85 Brandl Street  
Eight Mile Plains  
Qld 4113

### Auditors

Ernst & Young  
1 Eagle Street  
BRISBANE QLD 4000

### Contact Information

Ph: (07) 3841 4844  
Fax: (07) 3341 8189  
Email: [cbio@cbio.com.au](mailto:cbio@cbio.com.au)  
Web: [www.cbio.com.au](http://www.cbio.com.au)

### Share Registry & Register

Link Market Services Limited  
300 Queen Street  
Brisbane QLD 4000  
Ph: (07) 3220 2249

## CBIO LIMITED

### Directors' Report

For the half-year ended 31 December 2007

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Your directors submit their report for the half-year ended 31 December 2007.

#### DIRECTORS

The names of the directors of the company in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr. Stephen Jones	Chairman
Dr. Peter Corr	Non-executive director (appointed 30 October 2007)
Dr. Göran Ando	Non-executive director (appointed 5 October 2007)
Prof. John Funder	Non-executive director (appointed 5 October 2007)
Dr. Michael Monsour	Non-executive director
Dr. Dennis Feeney	Executive director (appointed 5 October 2007)
Mr. Jason Yeates	Managing director (appointed 5 October 2007)
Mr. Stephen Streeter	Non-executive director

#### RESULTS AND REVIEW OF OPERATIONS

The loss after tax attributable to members of CBio Limited for the half-year ended 31 December 2007 was \$13,040,646. No dividend was proposed or paid during the period.

During the period, CBio commenced activities on a 150 patient, placebo-controlled Phase II proof of principle clinical trial in Rheumatoid Arthritis. This will be the largest clinical trial yet undertaken by CBio and will include clinical trial sites throughout Australia and New Zealand. It follows on from previous trials where CBio's lead drug candidate XToll® has been injected into 151 patients without any pattern of adverse reactions being recorded. The clinical trial will assess the effectiveness of XToll® when delivered subcutaneously (under the skin). Subcutaneous delivery is the method of delivery preferred by pharmaceutical companies.

It is expected that dosing of patients will commence in the second quarter of 2008 with the trial not planned to be completed until the first half of the 2009 calendar year.

The Company has continued to strengthen its intellectual property portfolio, with 37 patents now granted. A further 13 patents are currently in the national phases in key markets. The Company expects to file a number of new patents in the near future which again strengthens its asset base.

Capital raising initiatives, whilst difficult, continued to be the focus of Board activity during the period. The Company raised \$1.43 million (cash \$1.08 million and tradable shares \$0.35 million) from the issue of shares in the six months to 31 December 2007 and a further \$3.05 million from the issue of Convertible Notes. The Company also disposed of its holding in the listed entity Viralytics Limited during the period to raise cash required for working capital. As announced at the Annual General Meeting in November, the Company is concluding funding arrangements which will see it through to June 2009.

Significant changes to the composition of the CBio Board occurred during the period, with the appointment of five new directors. Dr Göran Ando, Professor John Funder, Dr Dennis Feeney and Mr Jason Yeates (Managing Director) joined the Board on 5 October, while Dr Peter Corr was appointed a director on 30 October. The appointments of the non-Executive directors' Dr Corr, Dr Ando and

**Directors' Report**

For the half-year ended 31 December 2007

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**RESULTS AND REVIEW OF OPERATIONS (Continued)**

Professor Funder, give the CBio Board international drug development experience and credibility and provide new skill sets that significantly strengthen the Board.

Included in the result for the period was non-cash equity compensation of \$5.9 million as a result of new options issued and the modification of terms associated with existing options on issue.

**SUBSEQUENT EVENTS**

Since balance date, the Company has raised \$212,000 in share capital at \$1 per share. In addition, in order to effectuate an average issue price of \$1 per share, a further 1,184,570 shares were issued to shareholders who subscribed for shares at \$5 per share in 2007.

Subsequent to balance date, a number of convertible notes were issued under a Convertible Note Deed dated 30 August 2007 amounting to \$530,000.

Convertible notes with a total face value of \$2,030,000 were converted to shares in CBio on 29 February 2008 and in accord with the terms of notes, 2,435,797 shares were issued in CBio Limited. This conversion reduced the net deficiency in equity at the date of conversion by \$2,030,000.

On 29 February 2008, convertible notes with a total face value of \$1,500,000 were extended for three months to 31 May 2008.

On 14 February 2008 the exercise price for all current Director, Executive and Employee options was re-set to \$1 where the current exercise price was in excess of \$1.

Subsequent to Balance Date the Company has received a letter of intent from a large USA based specialist Medical Fund and is in discussions with a major pharmaceutical company concerning future funding and development. The directors are confident of a successful outcome from these discussions to allow the company to return to a position of positive shareholders funds.

**AUDITOR'S INDEPENDENCE DECLARATION**

A statement of independence has been provided by our auditors, Ernst & Young, and is included in the attached financial report.

Signed in accordance with a resolution of directors



Mr Stephen Jones  
Chairman  
London  
Date: 13 March 2008

**CBIO LIMITED**

**Condensed Income Statement**

For the half-year ended 31 December 2007

Continuing Operations	Notes	December 2007 \$	December 2006 \$
<b>Income from Ordinary Activities</b>	2	822,616	823,183
<b>Expenses from Ordinary Activities</b>			
Borrowing costs expense	3	(55,409)	(109)
Administration expenses	4	(7,187,612)	(2,385,992)
Research and development		(5,578,363)	(6,270,387)
Patent costs		(162,038)	(433,828)
Loss on disposal of available for sale assets	6	(532,143)	-
Marketing expenses		(347,697)	(269,597)
<b>Loss before income tax from continuing operations</b>		(13,040,646)	(8,536,730)
Income tax expense		-	-
Loss from continuing operations after income tax		(13,040,646)	(8,536,730)
<b>Discontinued Operations</b>			
Profit from discontinued operations after income tax	5	-	6,444,497
Loss for the period		(13,040,646)	(2,092,233)
Loss attributable to minority equity interest	5	-	160,306
Loss attributable to members of the parent entity		(13,040,646)	(1,931,927)
<b>(Loss)/gain per share (cents per share)</b>			
Basic/Diluted – Continuing operations		(49.03)	(33.10)
Basic – Discontinued operations		-	25.61
Diluted – Discontinued operations		-	15.37

The Condensed Income Statement is to be read in conjunction with the notes to the Financial Statements

**CBIO LIMITED**

**Condensed Balance Sheet**  
As at 31 December 2007

	Notes	31 December 2007 \$	30 June 2007 \$
<b>Current assets</b>			
Cash and cash equivalents		92,796	155,708
Trade and other receivables		445,779	851,846
Financial assets	6	-	1,585,129
Other current assets		176,948	56,346
<b>Total current assets</b>		<u>715,523</u>	<u>2,649,029</u>
<b>Non-Current Assets</b>			
Property, plant and equipment		762,419	911,239
Trade and other receivables		178,504	175,462
Intangible assets	7	-	-
<b>Total Non-Current Assets</b>		<u>940,923</u>	<u>1,086,701</u>
<b>Total Assets</b>		<u>1,656,446</u>	<u>3,735,730</u>
<b>Current Liabilities</b>			
Trade and other payables		3,230,753	2,651,814
Short-term provisions		121,446	148,828
Financial liabilities	8	3,383,163	200,000
<b>Total current liabilities</b>		<u>6,735,362</u>	<u>3,000,642</u>
<b>Non-Current Liabilities</b>			
Long-term provisions		24,596	19,809
<b>Total Non-Current Liabilities</b>		<u>24,596</u>	<u>19,809</u>
<b>Total Liabilities</b>		<u>6,759,958</u>	<u>3,020,451</u>
<b>Net Assets</b>		<u>(5,103,512)</u>	<u>715,279</u>
<b>Equity</b>			
Issued Capital	9	38,125,939	36,838,670
Reserves		11,428,839	5,494,253
Accumulated Losses		(54,658,290)	(41,617,644)
<b>Total Equity</b>		<u>(5,103,512)</u>	<u>715,279</u>

The Condensed Balance Sheet is to be read in conjunction with the notes to the Financial Statements

**CBIO LIMITED**

**Condensed Statement of Changes In Equity**  
As at 31 December 2007

CONSOLIDATED	Issued capital	Accumulated losses	Other reserves	Total	Minority interest	Total equity
	\$	\$	\$	\$	\$	\$
<b>At 1 July 2006</b>	<b>31,026,008</b>	<b>(32,191,808)</b>	<b>3,671,597</b>	<b>2,505,797</b>	<b>2,328,448</b>	<b>4,834,245</b>
Loss for the period	-	(1,931,927)	-	(1,931,927)	(160,306)	(2,092,233)
Cost of share based payment	-	-	1,000,001	1,000,001	-	1,000,001
Share issue costs	(108,000)	-	-	(108,000)	-	(108,000)
Disposal of controlled entity	-	-	(288,746)	(288,746)	(2,168,142)	(2,456,888)
Issue of share capital – Parent	3,920,001	-	-	3,920,001	-	3,920,001
<b>At 31 December 2006</b>	<b>34,838,009</b>	<b>(34,123,735)</b>	<b>4,382,852</b>	<b>5,097,126</b>	<b>-</b>	<b>5,097,126</b>
<b>At 1 July 2007</b>	<b>36,838,670</b>	<b>(41,617,644)</b>	<b>5,494,253</b>	<b>715,279</b>	<b>-</b>	<b>715,279</b>
Loss for the period	-	(13,040,646)	-	(13,040,646)	-	(13,040,646)
Cost of share based payment	-	-	5,934,586	5,934,586	-	5,934,586
Share issue costs	(147,557)	-	-	(147,557)	-	(147,557)
Issue of share capital	1,434,826	-	-	1,434,826	-	1,434,826
<b>At 31 December 2007</b>	<b>38,125,939</b>	<b>(54,658,290)</b>	<b>11,428,839</b>	<b>(5,103,512)</b>	<b>-</b>	<b>(5,103,512)</b>

The Condensed Changes in Equity Statement is to be read in conjunction with the notes to the Financial Statements

**CBIO LIMITED**

**Condensed Cash Flow Statement**  
For the half-year ended 31 December 2007

	Notes	December 2007 \$	December 2006 \$
<b>Cash flows from/(used in) operating activities</b>			
Payments to suppliers and employees		(6,833,422)	(8,028,940)
Grant income received		909,588	694,465
Cash received in the course of operations		84,804	520,026
Interest received		73,836	95,333
Interest paid		-	(59,697)
<b>Net cash used in operating activities</b>		<b>(5,765,194)</b>	<b>(6,778,813)</b>
<b>Cash flows from/(used in) investing activities</b>			
Proceeds from sale of investments	6	1,401,097	7,766,219
Repayment of loan		94,000	650,000
Bank guarantee deposit		(3,042)	(2,939)
Purchase of Plant and equipment		(1,027)	(246,654)
Cash disposed on disposal of controlled entity	5	-	(284,028)
Loan to related entity		-	(1,684,000)
<b>Net cash provided by investing activities</b>		<b>1,491,028</b>	<b>6,198,598</b>
<b>Cash flows from/(used in) financing activities</b>			
Proceeds from issue of shares		1,081,713	3,860,001
Proceeds from issue of convertible note		3,050,000	600,000
Proceeds from borrowings		79,541	-
Repayment of borrowings		-	(65,534)
Payment of share issue costs		-	(108,000)
<b>Net cash provided by financing activities</b>		<b>4,211,254</b>	<b>4,286,467</b>
<b>Net increase/(decrease) in cash held</b>		<b>(62,912)</b>	<b>3,706,252</b>
<b>Cash at beginning of the financial period</b>		<b>155,708</b>	<b>419,802</b>
<b>Cash at the end of the financial period</b>		<b>92,796</b>	<b>4,126,054</b>

The Condensed Cash Flow Statement is to be read in conjunction with the notes to the Financial Statements

**Notes to the Financial Statements**

For the half-year ended 31 December 2007

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation of the Half-Year Financial Report**

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of CBio Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by CBio Limited during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

**a) Basis of Accounting**

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The half-year financial report has been prepared in accordance with the historical cost basis.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period. The financial report is presented in Australian Dollars.

**b) Statement of Compliance**

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereon, complies with International Financial Reporting Standards ('IFRS'). There are no AIFRS standards issued but not yet effected that are expected to impact the position and performance of the group.

**c) Going Concern**

The financial report for the half-year ended 31 December 2007 is prepared on a going concern basis. The Company incurred an operating loss after income tax of \$13,040,646 (2006: \$1,931,927) for the half year. At 31 December 2007 the Company has net current liabilities of \$6,019,839 and an excess of liabilities over total assets of \$5,103,512. These conditions give rise to significant uncertainty as to whether the Company will be able to continue as a going concern and be able to pay its debts as and when they fall due.

The directors believe that the going concern basis is appropriate due to a strong history of capital raising, current capital raising initiatives in place and the positive clinical results to date. The success of future capital raising for CBio Limited will depend on the Company achieving positive results in the future clinical trials.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

**c) Going Concern (Continued)**

CBio's ongoing research & development program will require additional funding to be raised over the next 12 months. The directors have already commenced raising these funds and have raised \$1.082 million in cash from sophisticated investors during the half-year and a further \$3.050 million through the issue of convertible notes in the period, of which subsequent to 31 December 2007 \$1.6 million converted to equity. Additionally CBio has received 2 letters of intent, both of which contemplate the provision of substantial cash. These proposals, plus other initiatives are part of a suite of funding initiatives which are being pursued by the company.

Should CBio not receive future funds, it may not be able to continue as a going concern and pay its debts as and when they fall due. Accordingly, the Company may be required to realise assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report. This 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 CBio not be able to continue as a going concern.

	December 2007 \$	December 2006 \$
<b>2. INCOME</b>		
Interest received	7,377	135,278
Government grants	796,829	647,255
Other income	18,410	40,650
	822,616	823,183
<b>3. BORROWING COSTS EXPENSE</b>		
Interest expense on convertible notes	53,622	-
Other interest expense	1,787	109
	55,409	109

## CBIO LIMITED

### Notes to the Financial Statements For the half-year ended 31 December 2007

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	December 2007 \$	December 2006 \$
<b>4. ADMINISTRATION EXPENSES</b>		
Consulting fees	504,292	418,037
Depreciation	149,847	151,805
Office rental	186,388	162,181
Legal & compliance costs	82,886	101,160
Administration salaries	204,480	276,120
Director salaries	125,000	490,885
Employment related costs	253,278	300,323
Travel costs	89,151	103,280
Share-based payment expense	5,351,810	138,733
Other administration expenses	240,480	243,468
	<u>7,187,612</u>	<u>2,385,992</u>

### 5. DISCONTINUED OPERATIONS

#### (a) Details of operations disposed

On 11 August 2006, the Company sold a 19.95% stake in BresaGen Limited to Hospira Holdings (S.A.) Pty Ltd at 14 cents per share. Effective from this date, CBio no longer held a controlling interest in BresaGen. The Company subsequently accepted an offer from Hospira Holdings (S.A.) Pty Ltd in October 2006 to purchase its remaining 17.1% stake in BresaGen Ltd at 14 cents per share. The total proceeds from the sale of CBio's holding in BresaGen was \$7,766,219. This represents a profit on sale of \$6,699,032.

#### (b) Financial performance of operations disposed

The results of the discontinued operations for the period until disposal are presented below:

Revenues	-	67,711
Expenses	-	(322,246)
Loss before income tax	-	(254,535)
Gain on disposal	-	6,699,032
Income tax expense	-	-
Net profit	-	<u>6,444,497</u>
Net loss attributable to minority interest	-	<u>160,306</u>
Net profit attributable to members of CBio Limited	-	<u>6,604,803</u>

## CBIO LIMITED

### Notes to the Financial Statements For the half-year ended 31 December 2007

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	December 2007 \$	December 2006 \$
<b>5. DISCONTINUED OPERATIONS continued</b>		
<b>(c) Reconciliation of gain on disposal</b>		
Consideration received on sale of investments	-	7,766,219
Less net assets disposed (i)	-	1,067,187
Gain on sale of investment	-	6,699,032

(i) Included in net assets disposed is cash of \$284,028.

	December 2007 \$	June 2007 \$
<b>6. FINANCIAL ASSETS</b>		
Investment in listed entity at fair value (i)	-	1,585,129
	-	1,585,129

(i) During the period, the Company acquired an additional investment in Viralytics Limited for non cash consideration of \$353,111 to record a total investment of \$1,938,240. This investment was sold for cash consideration of \$1,406,097 to realise a loss of \$532,143.

### 7. INTANGIBLE ASSETS

Intellectual property	4,125,000	4,125,000
Provision for recoverability (i)	(4,125,000)	(4,125,000)
	-	-

(i) 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 For the half-year ended 31 December 2007

	December 2007 \$	December 2006 \$
<b>8. FINANCIAL LIABILITIES</b>		
Convertible notes (i)	3,250,000	-
Accrued interest payable on convertible notes	53,622	-
Loan liabilities (ii)	79,541	200,000
	<u>3,383,163</u>	<u>200,000</u>

(i) During the period, the Company issued 14 Convertible Notes under a Convertible Note Deed dated 30 August 2007. The notes have varying face values and interest of 8% per annum is payable semi-annually.

In addition, notes may be converted to shares in CBio Limited in accordance with the terms of each note. Notes have a life of no greater than six months unless extended for a further period if agreed by CBio and the Note holder.

(ii) Refer to Note 12 Related Party Transactions for further details.

	2007 Number	2007 \$
<b>9. ISSUED CAPITAL</b>		
Ordinary shares issued and fully paid	26,819,753	38,125,939
<b>Movements in ordinary shares on issue</b>		
Ordinary shares issued at the beginning of the half-year	26,526,143	36,838,670
- private placement	216,343	1,081,715
- in exchange for share capital of Viralytics Limited	77,267	353,111
Share issue costs	-	(147,557)
Ordinary shares at the end of the half-year	<u>26,819,753</u>	<u>38,125,939</u>

### 10. SHARE BASED PAYMENT PLANS

During the period, the Company issued 5,340,000 options. The total number of options on issue at the review date, taking into account those options which lapsed during the period, is 13,692,708. During the period, the terms and conditions of some options were varied. The expiry date for some, but not all, options has been extended to 31 December 2012 while the exercise price for certain options, issued with exercise prices of \$3 and higher, was re-set to \$2. The modification of option terms caused an expense of \$2,728,150 to be incurred in the period to 31 December 2007.

## 11. SEGMENT INFORMATION

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

## 12. RELATED PARTY TRANSACTIONS

During the period, Australian Technology Innovation Fund Limited, a company associated with Mr Stephen Jones, Dr Michael Monsour and Mr Stephen Streeter, paid the Company \$240,000. \$94,000 was for the repayment of a loan from CBio, \$66,459 the payment of accrued interest on the loan and \$79,541 was a loan to CBio. The loan to CBio is non-interest bearing and is repayable on demand.

At 30 June 2007 a finance facility was provided by MPAMM Pty Ltd, an entity associated with Dr Michael Monsour. An interest-free loan of \$200,000 was provided on unsecured terms. During the period, MPAMM Pty Ltd agreed to convert its unsecured loan to CBio Ltd into two Convertible Note's. MPAMM Pty Ltd subscribed to a further three convertible notes during the period, bringing the total number of convertible notes held by MPAMM Pty Ltd at the balance date to six.

Mr Stephen Streeter is the principal fundraiser of the Company. During the period, fees totalling \$83,144 were payable to S & M Streeter Investments Pty Ltd for raising \$3,021,453 (Capital and Notes). The balance outstanding at the balance date in relation to these fees and those payable from prior period raisings was \$103,544.

During the period 4,650,000 options were issued to Directors at an exercise price of \$2 and an expiry date of 31 December 2012.

Directors and consulting fees were also paid in the normal course of business.

## 13. COMMITMENTS

As at the balance date, the Company had un-finalised contracts involving pre-clinical and clinical studies and the production and supply of Cpn10 for use in research and development, pre-clinical and clinical studies. The estimated remaining contracted costs to finalise these contracts amount to approximately \$1,950,000. Approximately \$771,000 of this expenditure is denominated in a foreign currency (United States dollars) and is fully unhedged. It is expected that these contracts will be finalised by 30 June 2008.

In 2005, the Company entered into a long-term property lease for purpose built facilities which expires in March 2012. Current lease payments are approximately \$454,000 per annum. A portion of these facilities have been sub-leased until November 2008 at current lease payments of approximately \$73,000 per annum.

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 Uniquet Pty Ltd to CSL for payment of \$125,000. The Royalty Agreements stipulates that CBio is to pay royalties to CSL after commercialisation of products developed under the Research Agreement

**Notes to the Financial Statements**

For the half-year ended 31 December 2007

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**14. SUBSEQUENT EVENTS**

Since balance date, the Company has raised \$212,000 in share capital at \$1 per share. In addition, in order to effectuate an average issue price of \$1 per share, a further 1,184,570 shares were issued to shareholders who subscribed for shares at \$5 per share in 2007.

Subsequent to balance date, a number of convertible notes were issued under a Convertible Note Deed dated 30 August 2007 amounting to \$530,000.

Convertible notes with a total face value of \$2,030,000 were converted to shares in CBio on 29 February 2008 and in accord with the terms of notes, 2,435,797 shares were issued in CBio Limited. This conversion reduced the net deficiency in equity at the date of conversion by \$2,030,000.

On 29 February 2008, convertible notes with a total face value of \$1,500,000 were extended for three months to 31 May 2008.

On 14 February 2008 the exercise price for all current Director, Executive and Employee options was re-set to \$1 where the current exercise price was in excess of \$1.

Subsequent to Balance Date the Company has received a letter of intent from a large USA based specialist Medical Fund and is in discussions with a major pharmaceutical company concerning future funding and development. The directors are confident of a successful outcome from these discussions to allow the company to return to a position of positive shareholders funds.

**15. CORPORATE INFORMATION**

CBio Limited is a company incorporated in Australia and limited by shares. The nature of the operations and principal activities of the group are contained in Note 11.

## CBIO LIMITED

### Directors' Declaration

For the half-year ended 31 December 2007

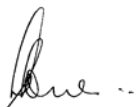
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In accordance with a resolution of the directors of CBio Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company:
  - (i) give a true and fair view of the company's financial position as at 31 December 2007 and the performance for the half-year ended on that date; and
  - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) Subject to the inherent uncertainty regarding the 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, and based on the statements contained therein relating to funding initiatives currently underway and the possibility of commercial negotiations with major companies, the Board is of the opinion that there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

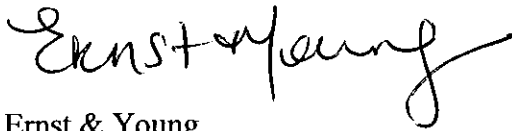


Stephen Jones  
Chairman  
London

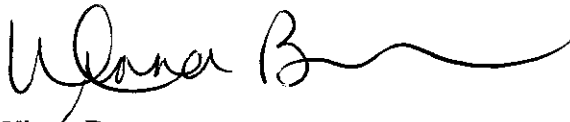
Date: 13 March 2008

## **Auditor's Independence Declaration to the Directors of CBio Limited**

In relation to our review of the financial report of CBio Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Winna Brown  
Partner  
14 March 2008

To the members of CBio Limited

## **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of CBio Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of CBio Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

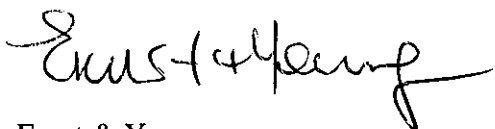
*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of CBio Limited is not in accordance with the *Corporations Act 2001*, including:

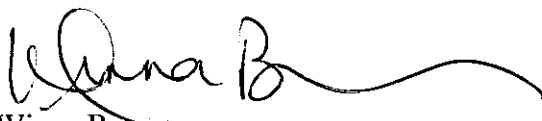
- (i) giving a true and fair view of the company's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our conclusion, we draw attention to Note 1(c) "Going Concern" in the financial report which indicates that the company incurred a net loss of \$13,040,646 during the half-year ended 31 December 2007 and has a deficiency in current assets of \$6,019,839 and an excess of liabilities over total assets of \$5,103,512 at that date. As described in Note 1(c) "Going Concern", the company will require additional working capital from capital raisings or funding arrangements to continue its operations and pay its debts as and when due. As a result of these matters there is significant uncertainty whether the company will 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 and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.



Ernst & Young



Winna Brown  
Partner  
Brisbane

14 March 2008