

Probiomics Limited
ABN 97 084 464 193

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The Companies Announcements Office,
The Australian Stock Exchange Limited,
SYDNEY

3 March 2008

Addendum – Half Year Accounts.

Dear Sir,

Further to 4 D lodged on 29 February 2008, please find attached the Half Year Accounts, which have been reviewed by the Company's auditors.

Yours sincerely,



A Jairath,
Company Secretary

Probiomics Limited

ACN 084 464 193

Interim Financial Report for the half-year ended 31 December 2007

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Corporate Information

This half-year report covers Probiomics Limited (the Company). The Company's functional and presentation currency is AUD(\$).

A description of the Company's operations and of its principal activities is included in the review of operations and activities in the Directors' report on page 4. The Directors' report has not been reviewed by the Company's auditors and does not form part of the financial report.

Directors

Mr B M Gardiner (Chairman)
Mr P D Ford
Professor R Penny AO

Company Secretary

Mr A. K. Jairath

Registered office and Principal place of business

Suite G09, 1 Central Avenue, Australian Technology Park, Eveleigh NSW 1430

Auditors

Ernst & Young
Ernst & Young Centre,
680 George Street,
SYDNEY NSW 2000

Bankers

National Australia Bank Limited

Share Register

Computershare Financial Services Pty Limited,
Level 12, 565 Bourke Street,
Melbourne Victoria 3001
Phone 1300 850 505
Fax: 03/9473 2500

Principal Solicitors

Moray & Agnew
Level 24,
33 Castlereagh Street
SYDNEY NSW 2000

Directors' Report

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

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as set out below. All directors were in office for this entire period.

Mr B M Gardiner (Chairman)
Mr P D Ford
Professor R Penny AO

REVIEW AND RESULTS OF OPERATIONS

Sales revenues were down by 57%, due to a lack of sales to Nuvanta in SE Asia due to a dispute over the distribution agreement. Sales to Nuskin in the US have not increased.

The company is in advanced negotiations with a major company to license PCC for global marketing and distribution of products in regions not committed to Nuskin, Nuvanta and Nestle. These negotiations are also likely to resolve outstanding production issues.

The relationship with Nestle continues to mature with major clinical trials to be funded by Nestle advancing through the planning phase.

The operational result, a loss of \$802,115 before tax was an improvement of 12% compared to the same period last year.

The company has been pursuing an exciting business acquisition, which is likely to be concluded in the next reporting period.

We have obtained the independence declaration from our auditors, Ernst & Young, included on page 5.



B.M. Gardiner
Chairman

Sydney, 29 February 2008

Auditor's Independence Declaration to the Directors of Probiomics Limited

In relation to our review of the financial report of Probiomics 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

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
Sydney
3 March 2008

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Note	31 December 2007 \$	31 December 2006 \$
Revenue	4(a)	210,248	488,928
Cost of sales		(59,187)	(393,442)
Gross profit		151,061	95,486
Other income	4(a)	62,645	50
Other expenses	4(a)	(1,015,821)	(1,269,482)
Loss before income tax		(802,115)	(1,173,946)
Income tax rebate		-	267,524
Loss after tax		(802,115)	(906,422)
Net loss for period		(802,115)	(906,422)
Earnings per share attributable to ordinary equity holders of the company			
- basic for loss for half-year (cents per share)		(0.5)	(0.6)
- diluted for loss for half-year (cents per share)		(0.5)	(0.6)

The above condensed income statement should be read in conjunction with the accompanying notes

Balance Sheet

AS AT 31 DECEMBER 2007

	NOTES	As at 31 December 2007 \$	As at 30 June 2007 \$
ASSETS			
Current assets			
Cash and cash equivalents		237,556	298,572
Trade and other receivables		78,072	91,238
Inventories		27,068	157,869
Prepayments		77,050	3,993
Total current assets		419,746	551,672
Non-current assets			
Plant and equipment		53,970	58,460
Total non-current assets		53,970	58,460
TOTAL ASSETS		473,716	610,132
LIABILITIES			
Current liabilities			
Trade and other payables		487,630	329,397
Provisions		40,240	38,223
Government Grants		20,729	20,729
Total current liabilities		548,599	388,349
Non-current liabilities			
Provisions		8,586	3,137
Convertible Notes		500,000	-
TOTAL LIABILITIES		1,057,185	391,486
NET (LIABILITIES)/ ASSETS		(583,469)	218,646
EQUITY			
Contributed equity	8	26,444,140	26,444,140
Reserves		239,920	239,920
Accumulated losses		(27,267,529)	(26,465,414)
TOTAL EQUITY		(583,469)	218,646

The above balance sheet should be read in conjunction with the accompanying notes

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Contributed Equity \$	Accumulated Losses \$	Reserves \$	Total Equity \$
At 1 July 2007	26,444,140	(26,465,414)	239,920	218,646
Transaction costs on share issue	-	-	-	-
Loss recognised in equity	-	-	-	-
Loss for the period	-	(802,115)	-	(802,115)
Total income and expense for the period	-	(802,115)	-	(802,115)
Shares issued	-	-	-	-
Cost of share-based payments	-	-	-	-
At 31 December 2007	26,444,140	(27,267,529)	239,920	(583,469)

	Contributed Equity \$	Accumulated Losses \$	Reserves \$	Total Equity \$
At 1 July 2006	24,990,320	(24,702,257)	122,520	410,583
Transaction costs on share issue	(51,250)	-	-	(51,250)
Loss recognised in equity	(51,250)	-	-	(51,250)
Loss for the period	-	(906,422)	-	(906,422)
Total income and expense for the period	(51,250)	(906,422)	-	(957,672)
Shares issued	1,025,000	-	-	1,025,000
Cost of share-based payments	-	-	115,400	115,400
At 31 December 2006	25,964,070	(25,608,679)	237,920	593,311

The above statement of changes in equity should be read in conjunction with the accompanying notes

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

NOTES

	31 December 2007 \$	31 December 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	472,646	715,003
Payments to suppliers and employees	(1,026,582)	(1,597,087)
Interest received /(paid)	(2,622)	11,831
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(556,558)	(870,253)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant & equipment	-	150
Acquisition of property, plant & equipment	(4,458)	(4,112)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	(4,458)	(3,962)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	-	1,025,000
Payment of share issue costs	-	(51,250)
Proceeds from issue of convertible notes	500,000	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	500,000	973,750
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(61,016)	99,535
ADD OPENING CASH AND CASH EQUIVALENTS BROUGHT FORWARD	298,572	209,427
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD	237,556	308,962

The above cash flow statement should be read in conjunction with the accompanying notes

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

1 CORPORATE INFORMATION

The financial report of Probiomics Limited (the Company) for the half-year ended 31 December 2007 was authorised for issue, in accordance with a resolution of the directors, on 29 February 2008. Probiomics Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all the 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 Probiomics Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any other public announcements made by Probiomics Limited during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the ASX listing rules.

(a) Basis of preparation

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 on an historical cost basis.

The financial report is presented in Australian dollars.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period. The 31 December 2007 report is prepared on a single company basis as there were no activities in the subsidiary company, whilst the 31 December 2006 report was prepared on a consolidated basis. There is no impact on the 31 December 2006 comparatives as the investment was fully eliminated on consolidation. This sole subsidiary was ultimately deregistered on 19 May 2007.

Going concern

This half-year financial report has been prepared on a going concern basis. In the half-year ended 31 December 2007 the Company has incurred losses of \$ 802,115 (2006 loss \$ 906,422) and raised a debt of \$ 500,000 through the issue of convertible notes that are expected to convert to equity at 4 cents per share. The Company has a net asset deficiency of \$ 583,469 and its ability to continue as a going concern is dependent on generating sufficient income to cover costs and the completion of an additional capital and/or debt raising within the coming months. Refer to Note 11 "Events After Balance Sheet Date". The directors believe there is no reason to doubt that these sources of funds will become available. However, should losses continue and/or the future capital and/or debt raising not be successful, or at an amount and timing that is not adequate to meet the future operational plans, or to successfully exploit its intellectual property, the Company may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Notes to the Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007 except for the adoption of amended and new accounting standards mandatory for annual reporting periods beginning on or after 1 July 2007. The Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company the interim half yearly report for the period ending 31 December 2007. The Directors have yet fully assessed the impact of these new or amended standards and interpretations.

3 SEGMENT INFORMATION

The Company operates in the bio-technology industry in Australia. The principal operations are to research, develop, market and distribute probiotic products. Sales are made both in Australia and internationally.

The following tables present revenue and profit information and certain asset and liability information regarding geographical segments.

	Australia		USA		SE ASIA		Consolidated	
	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$
Revenue								
Sales to external customers	124,685	19,789	85,563	253,745	-	215,394	210,248	488,928
Other revenues from external customers	62,645	50	-	-	-	-	62,645	50
Segment revenue	187,330	19,839	85,563	253,745	-	215,394	272,893	488,978
Other segment information								
Capital expenditure	4,458	4,112	-	-	-	-	4,458	4,112
Segment Depreciation	8,948	8,665	-	-	-	-	8,948	8,665
	Dec 2007 \$	Jun 2007 \$	Dec 2007 \$	Jun 2007 \$	Dec 2007 \$	Jun 2007 \$	Dec 2007 \$	Jun 2007 \$
Segment Assets	473,716	489,037	-	121,095	-	-	473,716	610,132
Segment Liabilities	1,057,185	391,486	-	-	-	-	1,057,185	391,486

The Company does not perform an analysis of costs and expenses by segment. All costs and expenses are measured on a combined basis and are not allocated between segments.

Notes to the Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

4 REVENUE, INCOME AND EXPENSES

Revenues from continuing operations.

(a) Revenue, Income and Expenses from Continuing Operations

	CONSOLIDATED	
	2007	2006
	\$	\$
<i>(i) Revenue</i>		
Sale of goods & other revenue	206,093	474,414
Finance revenue – interest received and receivable	4,155	14,514
Total revenue	210,248	488,928
<i>(ii) Other income</i>		
Sundry Income – recovery of bad debts & other adjustments	57,765	-
Foreign currency exchange gains	4,880	-
Other income	-	50
Total other income	62,645	50
<i>(iii) Other expenses</i>		
Audit fees and other auditor's services	76,556	41,200
Consultants' fees	229,293	115,215
Depreciation	8,948	8,665
Directors' fees	65,854	72,500
Employee benefits	208,766	365,918
Foreign currency exchange losses	-	3,680
Insurances	43,582	49,248
Intellectual property costs	66,785	36,715
Interest Paid on Convertible Notes	3,750	-
Legal expenses	20,987	45,439
Inventory write-off	121,095	-
Product design and marketing	-	-
Rent and outgoings	33,673	32,467
Research & Development costs	32,397	146,752
Share-based payments costs	-	115,400

(b) Seasonality of Operations

The Group's operations are not seasonal.

5 DIVIDENDS PAID AND PROPOSED

No dividends were paid during the half-year ended 31 December 2007 and none are proposed.

Notes to the Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

6 SHARE-BASED PAYMENT PLANS

The following table sets out the number (No.) and the weighted average exercise prices (WAEP) of and movements in share options issued during the half-year.

	<i>2007</i> <i>No.</i>	<i>2007</i> <i>WAEP</i>	<i>2006</i> <i>No.</i>	<i>2006</i> <i>WAEP</i>
Outstanding at the beginning of the year	12,950,000	\$0.13	4,110,000	\$0.39
Granted during the half-year	-	-	9,950,000	\$0.10
Expired during the half-year	(4,000,000)	\$0.20	(360,000)	\$0.75
Outstanding at the end of the half-year	8,950,000	\$0.04	13,700,000	\$0.17
Exercisable at the end of the half-year	8,950,000		13,450,000	

The outstanding balance at the end of the half-year is represented by:

- 375,000 options over ordinary shares with an exercise price of \$0.10 each, exercisable by 14 September 2008
- 8,575,000 options over ordinary shares with an exercise price of \$0.10 each, exercisable by 28 November 2008

The fair value of the options granted is estimated as at the date of issue using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used to calculate the fair value used for the half-year ended 31 December 2007.

	2007	2006
Dividend yield	0	0
Expected volatility %	60	60
Risk-free interest rate %	6.75	6
Expected life of options (years)	1	2
Option exercise price	\$0.04	\$0.10

The estimated fair value of each option at grant date is:

Options issued on 21 September 2006	\$0.008
Options issued on 29 November 2006	\$0.012

There is no share based payment expense accounted in this period as all share based payment transactions have been fully expensed in prior reporting periods.

Notes to the Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

7 COMMITMENTS AND CONTINGENCIES

Legal claims

1. The ex-distributor of proTract against whom legal proceedings were commenced in the prior period has now been liquidated and the administrator paid out a dividend of 10 cents in a dollar. The company received in total a dividend of \$ 40,634.

2. In the prior period a US based consultant made an alleged claim in the US jurisdiction for consulting fees. The directors have been advised and still maintain that this claim has no basis, as the services were not provided. There have been no subsequent developments in this matter.

8 CONTRIBUTED EQUITY

ISSUED CAPITAL		
	31 December 07 \$	30 June 07 \$
(i) Ordinary shares		
Issued and fully paid	26,444,140	26,444,140
<i>Movements in ordinary shares on issue</i>		
	Number of shares	Value of shares \$
At beginning of the period/ year	176,460,077	26,444,140
At end of the period/ year	176,460,077	26,444,140
(ii) Other reserves		
	31 December 07 \$	30 June 07 \$
<i>Movements in other reserves</i>		
At 1 July 2007	239,920	122,520
Cost of share-based payments	-	117,400
At 31 December 2007	239,920	239,920

9 RELATED PARTY TRANSACTIONS

The following table shows the total amount of transactions that were entered into with related parties for the half-years ended 31 December 2007.

<i>Related party</i>	<i>Purchases from related parties</i> \$	<i>Amounts owed to related parties</i> \$	<i>Options granted to related parties</i> \$
Mr Bryan Gardiner	nil	nil	nil
Mr Patrick Ford (i)	23,100	nil	nil
Prof. Ron Penny	nil	nil	nil

(i) Mr Patrick Ford is a director of Diskdew Pty Ltd that that provided services to the company during the half-year ended 31 December 2007 on normal commercial terms and conditions.

Notes to the Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

10 CONVERTIBLE NOTES

During the period the Company issued convertible notes to value of \$ 500,000. These notes are expected to convert to equity at 4 cents per share. These notes have been accounted for as a financial liability in accordance with the terms of the agreement.

11 EVENTS AFTER BALANCE DATE

On 27 February, the Company announced that it will be raising up to \$ 2.2 million. The capital raising will be by way of a placement of shares (subject to shareholder approval), together with a Share Purchase Plan (SPP). The Company is involved in discussions with several stockbroking firms in its endeavours to have part or all of this sum underwritten. Details of the capital raising, together with an indicative timetable and an update to shareholders, is expected to be released within the next ten business days, or earlier, if appropriate.

Directors' Declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) give a true and fair view of the financial position as at 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



B. M. Gardiner
Chairman

Sydney, 29 February 2008

To the members of Probiomics Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Probiomics Limited, which comprises the balance sheet as at 31 December 2007, and the condensed income statement, statement of changes in equity and 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 Probiomics 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, a copy of which is included on page 5 of the Financial Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Probiomics 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 expressed above, we draw attention to Note 2 (a) "Going Concern" in the financial report which indicates that there is significant uncertainty whether the Company will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and 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 recoverability and classification of the 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

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
Sydney
3 March 2008