

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

## Appendix 4D – Half Year Report

1. Name of entity	PROBIOMICS LIMITED ACN 97 084 464 193
Half-year ended	31 <sup>st</sup> December 2007
Reporting period	1 <sup>st</sup> July 2007 to 31 <sup>st</sup> December 2007
Previous period	1 <sup>st</sup> July 2006 to 31 <sup>st</sup> December 2006

## 2. Results for announcement to the market

	31 Dec 2007	31 Dec 2006	%change
2.1 Revenues from continuing operations	\$210,248	\$488,928	-57%
2.2 Loss from continuing operations after tax attributable to members	\$802,115	\$906,422	-12%
2.3 Net loss attributable to members	\$802,115	\$906,422	-12%
2.4 Proposed dividends	nil	nil	
2.5 Not applicable			
2.6 Refer attached report.			
3. Net tangible asset per security	0.3c	0.4c	
4. The company did not gain or lose control over any other entity during the reporting Period.			
5. There were no payments of dividends during the reporting period.			
6. There is no dividend reinvestment plan in operation.			
7. There are no associates or joint venture entities.			
8. The company is not a foreign entity.			
9. The accounts are in the process of being audited.			

The company's half-year report follows.

Yours sincerely,



Ashok K. Jairath  
Company Secretary  
29 February 2008

**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 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 to planning phase.

The operational result, a loss of \$ 802,115 after 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.

## Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Note	31 December 2007 \$	31 December 2006 \$
Revenue	4(a)	<b>210,248</b>	488,928
Cost of sales		<b>(59,187)</b>	(393,442)
<b>Gross profit</b>		<b>151,061</b>	95,486
Other income	4(a)	<b>62,645</b>	50
Other expenses	4(a)	<b>(1,015,821)</b>	(1,269,482)
<b>Loss before income tax</b>		<b>(802,115)</b>	(1,173,946)
Income tax rebate		-	267,524
<b>Loss after tax</b>		<b>(802,115)</b>	(906,422)
<b>Net loss for period</b>		<b>(802,115)</b>	(906,422)
Earnings per share attributable to ordinary equity holders of the company			
- basic for loss for half-year (cents per share)		<b>(0.5)</b>	(0.6)
- diluted for loss for half-year (cents per share)		<b>(0.5)</b>	(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 \$
<b>ASSETS</b>			
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>419,746</b>	<b>551,672</b>
<b>Non-current assets</b>			
Plant and equipment		53,970	58,460
<b>Total non-current assets</b>		<b>53,970</b>	<b>58,460</b>
<b>TOTAL ASSETS</b>		<b>473,716</b>	<b>610,132</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		487,630	329,397
Provisions		40,240	38,223
Government Grants		20,729	20,729
<b>Total current liabilities</b>		<b>548,599</b>	<b>388,349</b>
<b>Non-current liabilities</b>			
Provisions		8,586	3,137
Convertible Notes		500,000	-
<b>TOTAL LIABILITIES</b>		<b>1,057,185</b>	<b>391,486</b>
<b>NET (LIABILITIES)/ ASSETS</b>		<b>(583,469)</b>	<b>218,646</b>
<b>EQUITY</b>			
Contributed equity	8	26,444,140	26,444,140
Reserves		239,920	239,920
Accumulated losses		(27,267,529)	(26,465,414)
<b>TOTAL EQUITY</b>		<b>(583,469)</b>	<b>218,646</b>

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 \$
<b>At 1 July 2007</b>	<b>26,444,140</b>	<b>(26,465,414)</b>	<b>239,920</b>	<b>218,646</b>
Transaction costs on share issue	-	-	-	-
Loss recognised in equity	-	-	-	-
Loss for the period	-	<b>(802,115)</b>	-	<b>(802,115)</b>
Total income and expense for the period	-	<b>(802,115)</b>	-	<b>(802,115)</b>
Shares issued	-	-	-	-
Cost of share-based payments	-	-	-	-
<b>At 31 December 2007</b>	<b>26,444,140</b>	<b>(27,267,529)</b>	<b>239,920</b>	<b>(583,469)</b>
	<b>Contributed Equity \$</b>	<b>Accumulated Losses \$</b>	<b>Reserves \$</b>	<b>Total Equity \$</b>
<b>At 1 July 2006</b>	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
<b>At 31 December 2006</b>	<b>25,964,070</b>	<b>(25,608,679)</b>	<b>237,920</b>	<b>593,311</b>

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
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(556,558)</b>	<b>(870,253)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant & equipment	-	150
Acquisition of property, plant & equipment	(4,458)	(4,112)
<b>NET CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>	<b>(4,458)</b>	<b>(3,962)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares	-	1,025,000
Payment of share issue costs	-	(51,250)
Proceeds from issue of convertible notes	500,000	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>500,000</b>	<b>973,750</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(61,016)</b>	<b>99,535</b>
<b>ADD OPENING CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	<b>298,572</b>	<b>209,427</b>
<b>CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>237,556</b>	<b>308,962</b>

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 Company 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 \$
<b>Revenue</b>								
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	<b>187,330</b>	19,839	<b>85,563</b>	253,745	-	215,394	<b>272,893</b>	488,978
<b>Other segment information</b>								
Capital expenditure	4,458	4,112	-	-	-	-	4,458	4,112
Segment Depreciation	8,948	8,665	-	-	-	-	8,948	8,665
	<b>Dec 2007 \$</b>	Jun 2007 \$	<b>Dec 2007 \$</b>	Jun 2007 \$	<b>Dec 2007 \$</b>	Jun 2007 \$	<b>Dec 2007 \$</b>	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
	\$	\$
<b><i>(i) Revenue</i></b>		
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
<b><i>(ii) Other income</i></b>		
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
<b><i>(iii) Other expenses</i></b>		
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	<b>12,950,000</b>	<b>\$0.13</b>	4,110,000	\$0.39
Granted during the half-year	-	-	9,950,000	\$0.10
Expired during the half-year	<b>(4,000,000)</b>	<b>\$0.20</b>	(360,000)	\$0.75
Outstanding at the end of the half-year	<b>8,950,000</b>	<b>\$0.04</b>	13,700,000	\$0.17
Exercisable at the end of the half-year	<b>8,950,000</b>		<b>13,450,000</b>	

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.

	<b>2007</b>	2006
Dividend yield	<b>0</b>	0
Expected volatility %	<b>60</b>	60
Risk-free interest rate %	<b>6.75</b>	6
Expected life of options (years)	<b>1</b>	2
Option exercise price	<b>\$0.04</b>	\$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
	\$	\$
<b>(i) Ordinary shares</b>		
Issued and fully paid	26,444,140	26,444,140
<b>Movements in ordinary shares on issue</b>		
	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
<b>(ii) Other reserves</b>		
	31 December 07	30 June 07
	\$	\$
<b>Movements in other reserves</b>		
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.

Related party	Purchases from related parties	Amounts owed to related parties	Options granted to related parties
	\$	\$	\$
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.