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

Appendix 4D – Half Year Report

1. Name of entity PROBIOMICS LIMITED
ABN 97 084 464 193

Half-year ended 31st December 2005

Reporting period 1st July 2005 to 31st December 2005
Previous period 1st July 2004 to 31st December 2004

2. Results for announcement to the market

	31 Dec 2005	31 Dec 2004	%age change
2.1 Revenues from continuing operations	$812,515	$766,091	+6.1 %
2.2 Loss from continuing operations after tax attributable to members	$1,167,144	$2,037,214	- 42.7%
2.3 Net loss attributable to members	$1,167,144	$2,037,214	-42.7%
2.4 Proposed dividends	nil	nil	

2.5 Not applicable

2.6 Refer attached report

3. Net tangible asset per security	1.3c	1.8c

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 not subject to any audit dispute or qualification.

The company's half-year report follows.

Yours sincerely,

Paul B Magoffin
Company Secretary
9th March 2006

PROBIOMICS LIMITED

ACN 084 464 193

HALF-YEAR FINANCIAL REPORT

FOR THE SIX MONTHS ENDED

31ST DECEMBER 2005

CONTENTS

Director's Report

Your directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

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

Bryan Martin Gardiner (Chairman)

Patrick Douglas Ford

Ronald Penny AO

REVIEW AND RESULTS OF OPERATIONS

The result for the half-year was a loss of $1.2m which is a 43% improvement on the result for the same period of 2004.

This achievement is a result of changes made to the company's business model over 12 months ago and the trend is expected to continue.

Our model is to license our technology to experienced marketing and distribution companies and to provide ongoing product development support through an R&D program which is driven by our partners' identification of product targets.

We are now focused on a single technology platform - Probiotics – having completed the divestment of the diagnostic and vaccines projects.

During the period the company raised additional working capital of approximately $2.1m after costs through a placement in August 2005 and the well-supported Share Purchase Plan (SPP) in December 2005.

The company has plans for a further capital raising during the course of 2006.

Sales were up 6% on the 2004 period but were significantly lower than they should have been due to a dispute with our distributor Diacare International as noted in the contingent liabilities section of this report.

We are confident that this matter will be settled in our favour.

The Diacare dispute meant that only 3 months of sales of ProTract have been recorded in these accounts, as details of sales since 1st October 2005 have been withheld by the distributor, however the Directors believe that the product continues to be sold by Diacare.

We are in advanced discussions with a replacement distributor and expect proTract sales to rebound later in the year.

Pharmanex sales of Pro Bio PCC were up 108% on the same period in 2004 notwithstanding the fact that production problems meant that we were unable to supply product for 5 months during the period. The production problems have been resolved, and the recently announced re-negotiation of the Pharmanex agreement should result in further sales increases.

Sales to Nuvanta in Malaysia commenced strongly and totalled $165,000, including royalties, during the period. We are assisting Nuvanta with product registration in other South East Asian countries.

We continue to work closely with our food-company partners. We have been frustrated by some technical problems with the incorporation of PCC in a range of food products. However, we are making progress and have a good chance of getting our first "PCC" product on the supermarket shelves in September.

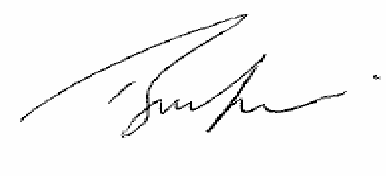
Our company is likely to become profitable once we licence our technology for global distribution.

We are engaged in advanced negotiations with large pharmaceutical and consumer product companies interested in the global marketing and distribution of our products. A positive outcome is possible during the course of 2006.

Auditor Independence Declaration

We have received an independence declaration from our auditors, Ernst & Young. A copy of this declaration can be found at page 4 of this financial report.

Signed in accordance with a resolution of the directors.



B M Gardiner

Director

Perth, 8th March 2006

ERNST & YOUNG

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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 2005, 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
Date: 9 March 2006

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	CONSOLIDATED 2005 $	2004 $
Revenue	2	**812,515**	766,091
Cost of sales		**(697,465)**	(496,428)
Gross profit		**115,050**	269,663
Other income	2	**31,284**	(4,729)
Other expenses	2	**(1,313,478)**	(2,302,148)
Loss before tax		**(1,167,144)**	(2,037,214)
Income tax expense		**-**	-
Loss after tax		**(1,167,144)**	(2,037,214)
Net loss attributable to members of Probiomics Limited		**(1,167,144)**	(2,037,214)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		**(1,167,144)**	(2,037,214)
Earnings per share (cents per share)			
- basic for loss for half-year		**(0.9c)**	(2.0c)
- diluted for loss for half-year		**(0.9c)**	(2.0c)
Dividends paid per share		**-**	-

Balance Sheet

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005	Notes	CONSOLIDATED	
		AS AT 31 DECEMBER 2005 $	AS AT 30 JUNE 2005 $
ASSETS			
Current assets			
Cash and cash equivalents		**954,134**	403,486
Trade and other receivables		**631,040**	381,044
Inventories		**204,056**	364,160
Prepayments		**22,155**	23,491
Total current assets		**1,811,385**	1,172,181
Non-current assets			
Property, plant and equipment		**122,382**	129,001
Total non-current assets		**122,382**	129,001
TOTAL ASSETS		**1,933,767**	1,301,182
LIABILITIES			
Current liabilities			
Trade and other payables		**783,319**	1,039,922
Government grants		**-**	9,012
Provisions		**36,260**	66,653
Total current liabilities		**819,579**	1,115,587
Non-current liabilities			
Provisions		**10,788**	7,631
Total non-current liabilities		**10,788**	7,631
TOTAL LIABILITIES		**830,367**	1,123,218
NET ASSETS		**1,103,400**	177,964
EQUITY			
Issued capital	4	**24,990,320**	22,900,486
Other reserves	4	**104,500**	101,754
Accumulated losses		**(23,991,420)**	(22,824,276)
TOTAL EQUITY		**1,103,400**	177,964

Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	CONSOLIDATED 2005 $	2004 $
Cash flows from operating activities			
Receipts from customers		**490,453**	780,563
Receipts from Government grants		**16,788**	43,357
Interest received		**11,075**	39,992
Payments to suppliers and employees		**(1,851,591)**	(2,396,970)
Other payments - Research & development costs		**(196,572)**	(528,828)
Net cash flows used in operating activities		**(1,529,847)**	(2,061,886)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**250**	-
Purchase of property, plant & equipment		**(9,589)**	(8,368)
Net cash flows used in investing activities		**(9,339)**	(8,368)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**2,210,022**	2,100,000
Cost of issue of shares		**(120,188)**	(105,000)
Net cash flows from financing activities		**2,089,834**	1,995,000
Net increase/(decrease) in cash held		**550,648**	(75,254)
Add opening cash brought forward		**403,486**	213,482
Closing cash carried forward	7	**954,134**	138,228

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED	Issued Capital	Retained Earnings	Other Reserves	Total Equity
	$	$		$
At 1 July 2004	19,955,725	(18,822,730)	32,137	1,165,132
Cost of issue of shares	(105,000)	-	-	(105,000)
Total income and expense for the period recognised directly in equity	(105,000)	-	-	(105,000)
Loss for the period	-	(2,037,214)	-	(2,037,214)
Total income and expense for the period	(105,000)	(2,037,214)	-	(2,142,214)
Issue of shares	2,100,000	-	-	2,100,000
Cost of share-based payments	-	-	32,712	32,712
At 31 December 2004	21,950,725	(20,859,944)	64,849	1,155,630
At 1 July 2005	22,900,486	(22,824,276)	101,754	177,964
Cost of issue of shares	(120,188)	-	-	(120,188)
Total income and expense for the period recognised directly in equity	(120,188)	-	-	(120,188)
Loss for the period	-	(1,167,144)	-	(1,167,144)
Total income and expense for the period	(120,188)	(1,167,144)	-	(1,287,332)
Issue of shares	2,210,022	-	-	2,210,022
Cost of share-based payments	-	-	2,746	2,746
At 31 December 2005	24,990,320	(23,991,420)	104,500	1,103,400

Notes to the Half-Year Financial Statements

31 DECEMBER 2005

1. 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 Probiomics Limited as at 30 June 2005 which was prepared under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") It is also recommended that the half-year financial report be considered together with any public announcements made by Probiomics Limited and its controlled entities during the half-year ended 31 December 2005 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 on an historical cost basis.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Going concern

In common with start-up biotechnology companies the company's operations are subject to considerable risks and significant uncertainty due primarily to the nature of research, development and commercialisation to be undertaken. The Company is in the process of marketing and distributing its products and has signed agreements with distributors to facilitate these sales. The company also requires additional funding to successfully execute its existing and future plans. If further funding is obtained by way of the raising of additional capital this would have the effect of further diluting existing shareholders' equity which may require approval of shareholders. In the event that the Company does not raise additional funding and continue to generate sales, significant uncertainty exists whether Probiomics Limited and/or the consolidated entity will be able to continue as a going concern. The financial statements take no account of the consequences, if any, of the effects of either unsuccessful product development or commercialisation or, of the inability of the company to obtain adequate additional funding if required.

The Directors are confident of raising additional funds and generating future revenue. The necessity for further capital raising is reviewed continually.

(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 thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared by the company based on AIFRS and comparatives for the half-year ended 31 December 2004 and the full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c).

Reconciliations of:-

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005;
- AIFRS retained earnings as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS loss for the half-year 31 December 2004 and full-year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and the 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e).

Notes continued

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (CONTINUED)

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Probiomics Limited and its subsidiaries (the "Group").

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits or losses arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Probiomics Limited has control.

(ii) Foreign currency translation

Both the functional and presentation currency of Probiomics Limited and its subsidiaries is Australian dollars (A$)

Transactions in foreign currencies are recorded, initially, in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange rate differences in the consolidated financial report are taken to the income statement.

(iii) 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 the goods and services received, whether or not they have been billed to the entity.

(iv) Research and Development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can be regarded as reasonably assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

(v) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee benefits liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories: wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave, and other entitlements, and other types of employee benefits are charged against profits on a net basis in their respective categories.

(vi) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(vii) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a diminishing value basis over the useful life as follows:-

Plant and equipment ranging from 2 to 20 years (2004 2-20 years)

Office equipment ranging from 2 to 14 years (2004 2-14 years)

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes continued

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (CONTINUED)

(vii) Property, plant and equipment (cont.)

Impairment (cont.)

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts.

The recoverable amount of plant and equipment is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(viii) Inventories

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

Costs incurred in bringing each product to its present location and condition are accounted for as follows:-

• raw materials – purchase cost on a first-in-first-out basis and,

• finished goods – cost of direct material and labour only

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(ix) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried forward at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(x) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xi) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and, a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xii) Share-based payment transactions

The Group provides benefits to employees, including directors, of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (‘equity-settled transactions’)

The plan in place to provide these benefits is the Employee Share Option Plan (ESOP) which provides benefits to directors and senior executives by way of options to purchase fully paid shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Probiomics Limited (‘market conditions’).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘vesting date’).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date, reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performances conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Notes continued

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (CONTINUED)

(xii) Share-based payment transactions (cont.)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market conditions.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xiii) Revenue

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

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time delivery of the goods to the customer.

Interest
Revenue is recognised as interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(xiv) Government grants

Government grants are recognised upon receipt or at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.
Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.
Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(xv) Taxes

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Notes continued

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (CONTINUED)

(xv) Taxes (cont.)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates, and tax laws, that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xvi) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

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 are classified as operating cash flows.

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

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 ‘First-time Adoption of Australian Equivalents to International Financial Reporting Standards’ as follows:-

Business combinations

AASB 3 ‘Business Combinations’ was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to IFRS).

Designation of previously recognised financial instruments

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions

AASB 2 ‘Share-Based Payments’ is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has not elected to adopt this exemption and has applied AASB 132 ‘Financial Instruments: Presentation and Disclosure’ and AASB 139 ‘Financial Instruments: Recognition and measurement’ to its comparative information.

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (‘AGAAP’) are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

		As at 30 June 05 $	As at 31 Dec 04 $	As at 1 Jul 04 $
Total equity under AGAAP		186,976	1,198,771	1,175,273
Adjustments to equity:				
Cost of share based payments	(a)	101,754	64,849	32,137
Cost of share based payments (expensed)	(a)	(101,754)	(64,849)	(32,137)
Government grants	(b)	(9,012)	(43,141)	(10,141)
Total equity under AIFRS		177,964	1,155,630	1,165,132

(a) Share-based payment costs are charged to the income statement under AASB 2 ‘Share-based Payment’, but not under AGAAP.

(b) Previously, Government grant revenue was recognised on a cash receipt basis under AGAAP. The recognition criteria under AIFRS require income to be recognised on a systematic basis to the costs it is intended to compensate.

(ii) Reconciliation of retained earnings as presented under AGAAP to that under AIFRS

		As at 30 June 05 $	As at 31 Dec 04 $	As at 1 Jul 04 $
Total retained earnings under AGAAP		(22,713,510)	(20,751,954)	(18,780,452)
Adjustments to retained earnings				
Cost of share-based payments (expensed)	(a)	(101,754)	(64,849)	(32,137)
Government grants	(b)	(9,012)	(43,141)	(10,141)
Total retained earnings under IFRS		(22,824,276)	(20,859,944)	(18,822,730)

Notes continued

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (CONTINUED)

(e) Impact of adoption of AIFRS (cont.)

(a) Share-based payment costs are charged to the income statement under AASB 2 'Share-based Payment', but not under AGAAP.

(b) Previously, Government grant revenue was recognised on a cash receipt basis under AGAAP. The recognition criteria under AIFRS require income to be recognised on a systematic basis to the costs it is intended to compensate.

(iii) Reconciliation of loss after tax under AGAAP to that under AIFRS

		Year ended 30 June 05	Half-Year ended 31 Dec 04
		$	$
Loss after tax as previously reported		3,933,058	1,971,502
Cost of share based payments	(a)	36,905	32,712
Adjustment for government grants	(b)	(34,129)	33,000
Loss after tax under AIFRS		3,935,834	2,037,214

(a) Share-based payment costs are charged to the income statement under AASB 2 'Share-based Payment', but not under AGAAP.

(b) Previously, Government grant revenue was recognised on a cash receipt basis under AGAAP. The recognition criteria under AIFRS require income to be recognised on a systematic basis to the costs it is intended to compensate.

(c) There is no tax effect of the above adjustments.

(iv) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

	Notes	CONSOLIDATED 2005 $	2004 $
2. REVENUE AND EXPENSES			
(a) **Specific Items**			
Loss from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:			
(i) **Revenues**			
Revenue from sale of goods		**801,440**	726,099
Finance income - interest received		**11,075**	39,992
		812,515	766,091
(ii) **Other income**			
Foreign currency exchange gains and (losses)		**5,485**	(15,085)
Government grants		**25,799**	10,356
(iii) **Expenses**			
Annual report expenses		**14,114**	8,223
ASX listing fees		**15,261**	20,048
Audit fees and auditors other services		**57,075**	72,300
Consultants' fees		**11,851**	38,575
Computer costs		**41,632**	23,262
Depreciation of non-current assets		**15,837**	19,290
Directors' fees		**76,250**	48,750
Insurances		**48,920**	113,070
Intellectual property costs		**52,970**	142,805
Legal fees		**41,578**	39,730
Payroll tax		**21,742**	23,164
Product design and marketing costs		**198,213**	387,294
Research & development costs		**196,572**	528,828
Salaries & other employee benefits		**302,348**	449,479
Share registry costs		**10,590**	20,598

Notes continued

2. REVENUE AND EXPENSES (cont.)

Share-based payments costs	**2,746**	32,712
Rental expenses	**37,855**	35,314
Redundancy costs	**13,596**	54,436
Travel expenses	**62,850**	136,337
All other costs	**91,478**	107,933
	1,313,478	2,302,148

3. CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities

As at the date of this report the company is in a legal dispute with an ex-consultant who has commenced proceedings in 2003 for the recovery of alleged fees owing of $135,000. If the action is successful through the Court process, the company would be liable to pay these fees plus estimated legal costs of between $60,000 and $70,000 plus interest and the claimant's costs.

The Directors are of the opinion, based on legal advice, that the matter will be defended successfully so no provision has been recognised in the half-year financial report at 31 December 2005.

Probiomics Limited has commenced proceedings against the ex-distributor of proTract for the recovery of goods held on behalf of the company by the distribution company and also for full payment of amounts owing by that company. The Directors are of the opinion, based on legal advice, that the action will be successful and no provision has been made for non-recovery of the goods or the debt in the financial statements. The distribution company's contract was terminated during the period and that company has made a cross-claim against Probiomics Limited seeking damages of $750,000 for breach of contract including wrongful termination. The figure of $750,000 is the maximum that can be claimed in the Court in which the claim was lodged. The particulars received to date in respect of the cross-claim indicate the actual amount of the claim to be substantially less than $750,000. The Directors are of the opinion, based on legal advice, that the cross-claim will not be successful so no provision has been made in the half-year financial report for the cross-claim.

Contingent assets

As at the date of this report the company had no contingent assets.

4. ISSUED CAPITAL

	Dec 05 $	Jun 05 $
Ordinary shares		
Issued and fully paid	24,990,320	22,900,486

Movements in ordinary shares on issue	Number of shares	Value of shares Dec 05
At 1 July 2005	113,044,377	22,900,486
Issued on 24th August by a private placement at $0.08 per share	12,588,000	1,007,040
Less costs of the above issue of shares	-	(50,351)
Issued on 9th December 2005 pursuant to a Share Purchase Plan (SPP) at $0.075 per share	16,039,843	1,202,982
Less costs of the above issue of shares	-	(69,837)
At 31 December 2005	141,672,220	24,990,320

Movements in other reserves	Dec 05 $	Jun 05 $
Other reserves		
At 1 July 2005	101,754	64,849
Cost of share-based payments	2,746	36,905
At 31 December 2005	104,500	101,754

Notes continued

5. SEGMENT INFORMATION

(a) The consolidated entity 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.

(b) Geographic segments	**Australia**		**USA**		**Singapore & Malaysia**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Segment revenue	**63,360**	444,690	**583,355**	321,401	**165,800**	-	**812,515**	766,091
Segment assets	**1,882,718**	1,047,139	**51,049**	254,043	**-**	-	**1,933,767**	1,301,182
Other segment information:								
Acquisition of plant & equipment	**9,589**	8,368	**-**	-	**-**	-	**9,589**	8,368

The consolidated entity 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.

6. SUBSEQUENT EVENTS

There were no subsequent events affecting the financial statements.

7. ADDITIONAL INFORMATION

Reconciliation of cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31st December.

	CONSOLIDATED	
	2005	2004
Cash at bank and on hand	**954,134**	138,228
Short-term deposits	**-**	750,000
	954,134	888,228

Directors' Declaration

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

In the opinion of the directors:

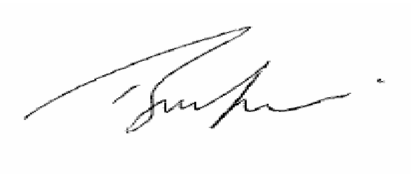
(a) the financial statements and notes of the consolidated entity:

 (i) give a true and fair view of the financial position as at 31 December 2005 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

Director

Perth, 8th March 2006

ERNST & YOUNG

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Independent review report to members of Probiomics Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Probiomics Limited (the company) and the entities it controlled during the period, and the directors' declaration for the company, for the period ended 31 December 2005.

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 consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and 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 4 of the financial report. In addition to our review of the financial report, we were engaged to undertake tax compliance services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Probiomics Limited and the entities it controlled during the period is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the period ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Liability limited by a scheme approved under Professional Standards Legislation.

ERNST & YOUNG

Inherent Uncertainty Regarding Continuation as a Going Concern
Without qualification to the statement expressed above, attention is drawn to the following matter. As a result of matters described in Note 1(a) 'Basis of Accounting – Going Concern' to the financial statements, there is significant uncertainty whether the consolidated entity 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 business and at 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 consolidated entity not be able to continue as a going concern.

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner

Sydney
Date: 9 March 2006