

CRYOSITE LIMITED

ABN 86 090 919 476

Annual Report

for the year ended 30 June 2003

CRYOSITE LIMITED—ANNUAL FINANCIAL REPORT

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Corporate Directory

Directors

Richard Grellman (Chairman)
Gordon Milliken (Managing Director)
Theodore Onisforou
Professor Ronald Penny, AO
Dr Peter French

Company Secretary

Bryan Dulhunty

Registered Office

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Lane Cove, New South Wales, 2066
Tel: (02) 9420 1400
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Share Register

ASX Perpetual Registrars Limited
Level 8, 580 George Street
Sydney NSW 2000

Auditors

Ernst & Young

Internet Address

www.cryosite.com

LETTER TO SHAREHOLDERS

The 2002/2003 financial year was one of continued development for Cryosite. Following the launch of Australia's only private cord blood stem cell service and the successful IPO in May 2002, the company made the roll out of a national advertising campaign for the cord blood service its first priority. The results of the campaign resulted in a significant increase in the public's awareness of Cryosite and the benefits of cord blood storage. By the end of June 2003, we had processed and stored cord blood collected by over 320 obstetricians in 140 hospitals throughout Australia. Cryosite is the only private cord blood service in Australia to operate with the necessary regulatory approval from the Therapeutic Goods Administration.

The board and management have been able to devote more resources to promoting the archival storage service and expanding the range of services provided by the distribution service. The distribution of the products from the American Type Culture Collection has continued to provide excellent growth and Cryosite now has a customer base of over 380 research institutions and biotechnology companies in Australia and New Zealand. However, the major area of growth over the latter half of the year has been the clinical trials logistics service. This service involves the storage and distribution of drugs and documents to clinical trial investigators throughout Australia and New Zealand. The customers are local and international pharmaceutical companies and Contract Research Organisations involved in conducting mainly Phase II & III trials. Australia continues to be a preferred country in which to conduct trials and Cryosite will continue to promote the value of the outsourcing of the logistics component. We believe that this part of the business is a good example of our strategy of building on the company's unique infrastructure and systems to expand its services and client base with minimal costs.

Further development of Cryobyte, our propriety web-based software for the management of client's sample data and inventory management, is complete. The PCT patent application is progressing as planned and has now reached the national registration stage in several countries. Cryobyte is an integral component of the archival storage service. We will also continue to assess any licencing opportunities.

The increased activity in all areas of the company resulted in revenue from ordinary activities increasing from \$498,114 to \$2,031,573 from the previous year.

Finally, we would also like to thank our shareholders who continue to support the company. We are committed to repay this support by continuing to build a unique company that is well positioned to capitalise on the significant expansion of the biotechnology and research industries in Australia.

Richard Grellman
Chairman

Gordon Milliken
Managing Director

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Directors' Report *continued*

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

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Richard Grellman FCA - Non-executive Chairman

In 2000, Richard Grellman retired as a partner of KMPG, having been with that firm for 32 years. He is Chairman of the Motor Accidents Authority of New South Wales, President and Chairman of the Board of Mission Australia and Chairman of Cryosite Limited. In addition, he is a Non-Executive Director of AMP Limited and also Atlas Group Holdings Limited. Richard is a fellow of the Institute of Chartered Accounts in Australia. Mr. Grellman was appointed to the Board in December 2002.

Theodore Onisforou, B.Com, L.L.B – Non-Executive Director

Mr. Onisforou has extensive commercial experience initially as a Tax Accountant with Peat, Marwick Mitchell, as a lawyer with Allen Allen and Hemsley and then as a Barrister at Law. He was Investment Manager at Consolidated Press Holdings and for the past five years, has been involved full time as a professional investor. Recently, he successfully completed course work at Sydney University for a Masters Degree in Agricultural Science. Mr. Onisforou joined the Board in March 2000 and was Chairman from May 2001 until December 2002.

Professor Ronald Penny, AO, DSc, MD, FRACP, FRCPA – Non-Executive Director

Professor Penny established the Department of Immunology at St Vincent's Hospital and the University of New South Wales, Sydney, in 1969 and was appointed Director of the Centre for Immunology in 1982. He was awarded an MD (University of Sydney) in 1970 and a DSc (UNSW) in 1979. In 1993 he was appointed an Officer of the Order of Australia "for service to medical research and education particularly in the field of clinical immunology". As one of Australia's leading immunologists, Professor Penny serves as Honorary Consultant at several Sydney Hospitals and serves on the Editorial Board of six international medical and scientific journals. Over the past fourteen years, he has held senior positions on Federal and NSW Government HIV/AIDS Health Services Committees and currently, is the Chairman of the NSW Government's Corrections Health Services Board. Professor Penny was appointed to the Board in December 1999. Recently he resigned after 33 years as Director of the Centre for Immunology to accept the position of Senior Medical Advisor to the NSW Department of Health.

Dr Peter French, BSc, MSc, PhD, MBA – Non-Executive Director

Dr Peter French is the CEO of ASX listed biotechnology company VRI BioMedical, a position he has held since March 2003. Dr. French holds a Ph.D. in cell biology, and an MBA in Technology Management. Dr. French is a member and a Past President of the Australia and New Zealand Society for Cell and Developmental Biology and is a member of board of the International Society of Differentiation. From 1998 to 2001, he served as a member of the Board of FASTS - the Federation of Australian Science and Technology Societies, representing the biological sciences sector. He was the author of the first FASTS Occasional Paper – "Biotechnology in Australia" - in 1999.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Directors' Report continued

Gordon Leonard Milliken, Dip. Med. Tech. Grad. Dip. Ops. Mgt - Managing Director

Mr. Milliken has over 35 years experience in a variety of research and development and operational positions in the veterinary and medical fields. These include Manager, Animal Health Laboratory for the Inghams Enterprises group, research scientist at Australian Monoclonal Developments and more recently, Senior Manager, Laboratory Operations, Macquarie Pathology Services and Operations Manager, Hanly Moir Pathology.

Mr. Milliken is one of the founders of the company and has been instrumental in setting up the operational core of the company. Mr. Milliken was appointed to the Board in February 2002.

Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Cryosite Limited were:

	Ordinary Shares	Options over Ordinary Shares
R. Grellman	50,000	500,000
T. Onisforou	8,215,061	250,000
Professor R. Penny AO	780,990	250,000
Dr. P. French	721,982	250,000
G. Milliken	813,490	312,500

EARNINGS PER SHARE

Basic earnings per share	(3.31) cents
Diluted earnings per share	(3.31) cents

PRINCIPAL ACTIVITIES

The company utilises its core platform of ultra-low and cryogenic storage of biological samples to operate three different business units:

- private collection and storage of umbilical cord blood stem cells;
- distribution of temperature critical biological samples and
- archival storage of biological samples.

REVIEW OF OPERATIONS

Although our operations were operating to a high standard at the time of the last report, a considerable amount of effort was expended during the year to build on this good work. The key component of these activities was a significant upgrade to the Quality Management System. As an organisation that operates in a highly regulated area, it is vital that our quality systems meet the regulatory and industry standards. The rewards for all of our efforts has been in attracting an increasing number of local and international based clients who have also carried out their own quality audits, all with very satisfactory outcomes.

The growth of the cord blood service and more recently, the development of the clinical trials logistics business, has resulted in the need to construct some more specialist storage areas in the facility. These include constructing a separate, secure area to hold clinical trial drugs and documentation.

A significant development of our proprietary software, Cryobyte was completed. The new features include the ability for clients to monitor the temperature storage conditions of samples being stored at Cryosite over the Internet, as well as a number of additional alarm event monitoring capabilities. We are progressing with our patent application and have now reached the national phase.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Directors' Report *continued*

The outlook for the company remains extremely positive and we remain confident that we will continue to interest new clients with our unique range of services and the World's Best Practices standard of our services.

COMPETITIVE ENVIRONMENT

Cryosite is in a strong competitive position with a number of its services. It is the only company in Australia that is approved by the TGA to operate a private cord blood service. The experience that we have gained by being the first such service in Australia and the accepted high quality of our service, will place us in a good position in the event of a competitor entering the market. The marketing and advertising strategy has ensured that there is a high level of awareness of our service. The possibility that a competitor will enter the cord blood market cannot be ignored. However, we believe that we have attained a high level of awareness of our service throughout the country and are perceived as providing a reliable and high quality service and furthermore, are in a good position to maintain first-starters advantage in the face of any potential competition.

The clinical trials logistics service operates in a niche market and we believe that we are well positioned to acquire an increasing number of clients through our ability to provide a greater level of customisation and personalised service. The ATCC distribution agreement continues to provide us with valuable contacts to cross-market our archival storage services.

Cryosite is continuing to explore the most innovative and relevant approaches to marketing all segments of its business, which we believe, will sustain the business in the medium to long term so as to ensure continued growth and revenue.

OPERATING RESULTS FOR THE YEAR

Total sales to 30th June were \$1,902,666, with an accelerated growth rate recorded, following the launch of the cord blood service. The previous year sales were \$460,919.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Board is confident that, subject to any unforeseen circumstances, the benefits of its common infrastructure and operations systems to support the three business units, will allow it to increase revenue growth and improve margins and overall financial performance of the Company during the year.

REGULATORY ENVIRONMENT

Cryosite's cord blood service is regulated by the TGA and requires a Code of Good Manufacturing Practice licence. Cryosite will remain diligent in observing the current regulations and act on any change to the requirements that may affect the company. The company also maintains accreditation from the National Association of Testing Authorities under the ISO/IEC 17025 guidelines for its storage and logistics services.

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company has paid a premium in respect of a contract, insuring all the Directors and Officers against liability, except wilful breach of duty, of a nature that is required to be disclosed under section 300 (8) of the Corporations Act 2001. In accordance with commercial practice, further details of the nature of the liabilities insured against and the amount of the premium, have not been disclosed.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Directors' Report *continued*

SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE DATE

The directors are unaware of any event or transaction that has occurred between the balance date 30 June 2003 and the date of this report, which had or may have a significant effect on the company.

DIVIDENDS

There were no dividends declared or paid during the course of the financial year and no dividend is recommended.

DIRECTORS' AND OFFICERS EMOLUMENTS

Details of the nature and amount of each element of the emolument of each director of the company, each of the executive officers of the company and the consolidated entity receiving the highest emolument for the financial year, are as follows. Details regarding the issue of share options under this plan are provided in note 19 to the financial statements

Annual Emoluments

	Directors Fees \$	Salary \$	Other \$	Super- annuation \$	Total \$
R. Grellman (Chairman)	22,936	-	-	2,064	25,000
T. Onisforou	27,523	-	-	2,477	30,000
Professor R. Penny AO	18,349	-	-	1,651	20,000
Dr P. French	18,349	-	-	1,651	20,000
G. Milliken	-	53,211	20,000	51,789	125,000

Long Term Emoluments

Options as at the end of the financial year

	No. Granted	Grant Date	No. Vesting	Deemed cost \$	% of Remuneration
R. Grellman	500,000	27 Nov 02	-	20,417	44.95%
T. Onisforou	250,000	9 May 02	-	-	-
Professor R. Penny AO	250,000	9 May 02	-	-	-
Dr P. French	250,000	9 May 02	-	-	-
G. Milliken	312,500	9 May 02	62,500	5,628	4.31%

No options were exercised during the year.

Options granted as part of a director emoluments have been valued, using a Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. The cost of these options have been calculated by reference to the period between grant date and vesting date and then amortised over that period. This cost is higher than disclosed in the financial statements, as the accounting basis used, expenses the deemed value of the options over the period, from grant date, to the likely exercise date. No value has been attributed to the value of options issued to the non-

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Directors' Report *continued*

executive directors in the prior period, as their options only vest, if the entity returns positive earnings before interest and tax for the year ended 30 June 2004. Refer note 19.

DIRECTORS' MEETINGS

During the financial year, 12 meetings of directors were held. Attendances were as follows:

	Directors Meetings Eligible to attend	Directors Meetings Attended
Current Directors		
R. Grellman	6	6
T. Onisforou	12	12
Professor R. Penny AO	12	12
Dr P. French	12	10
G. Milliken	12	12

TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, Cryosite Limited and its 100% owned subsidiary, intend to form a tax consolidated group. Members of the group will enter into a tax sharing arrangement, in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis.

CORPORATE STRUCTURE

Cryosite Ltd is a company limited by shares that is incorporated and domiciled in Australia. Cryosite Ltd has prepared a consolidated financial report incorporating Cryosite Distribution Pty Ltd, an entity that it controlled during the year

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors support the principles of corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the directors.

Mr R. Grellman
Chairman

Sydney 4 September 2003

Corporate Governance Statement

The Board strongly agrees with the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance. The directors are, however, realistic in acknowledging the size and nature of the company and have modified where they deem applicable, the best practice standards as laid down by the ASX. The Best Practice Recommendations not adopted or specific comments thereon are as follows:

Role of the Board and Management

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

Structure of the Board

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

Due to the early phase in development of the company, the company does not believe it appropriate to maintain a structure, where there is a majority of independent directors. A majority of the directors are the founders of the company and significant shareholders. As the company grows, the structure of the board will change and greater levels of independence reached.

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

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

Ethical and Responsible Decision-making

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

Safeguard Integrity in Financial Reporting

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

Timely and Balanced Disclosure

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

Corporate Governance Statement^{continued}

Shareholders' Rights

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

Recognise and Manage Risk

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

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

The Managing Director, Company Secretary and Financial Controller report to the Board on the integrity of financial statements and the effectiveness of internal compliance and control systems.

Performance Enhancement

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

Remuneration

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

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

The shareholders determine, at the annual general meeting, the aggregate remuneration of Non-Executive directors. The only retirement benefits payable to Non-Executive Directors are statutory superannuation payments.

Interests of Stakeholders

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

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Directors' Declaration

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

(1) In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and 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.

Signed in accordance with a resolution of the directors

Mr R. Grellman
Chairman

Sydney 4 September 2003

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Statement of Financial Performance

YEAR ENDED 30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
Revenue from ordinary activities	2	2,031,573	498,114	1,485,938	321,474
Expenses from ordinary activities	3				
Borrowing costs expense		(11,875)	(6,833)	(11,875)	(6,833)
Costs of providing services		(1,242,538)	(646,515)	(948,000)	(537,868)
Marketing expenses		(357,182)	(269,043)	(341,783)	(258,360)
Occupancy expenses		(205,947)	(197,548)	(205,879)	(197,548)
Administration expenses		(1,384,031)	(602,500)	(1,383,060)	(601,206)
Loss from Ordinary Activities before Income Tax Benefit		(1,170,000)	(1,224,325)	(1,404,659)	(1,280,341)
Income Tax Benefit Relating to Ordinary Activities	4	-	-	-	-
Net Loss from Ordinary Activities after Income Tax Benefit	20	(1,170,000)	(1,224,325)	(1,404,659)	(1,280,341)
Total Changes in Equity other than those Resulting from Transactions with Owners as Owners Attributable to Members of Cryosite Limited		(1,170,000)	(1,224,325)	(1,404,659)	(1,280,341)
Basic earnings per share (cents per share)	26	(3.3)	(7.5)		
Diluted earnings per share (cents per share)	26	(3.3)	(7.5)		

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Statement of Financial Position

AT 30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
Current Assets					
Cash assets		1,635,477	2,897,892	1,635,477	2,897,892
Receivables	6	512,811	280,704	391,039	179,039
Inventories	7	19,650	6,955	19,650	5,551
Other	8	96,429	45,960	96,429	43,960
Total Current Assets		2,264,367	3,231,511	2,142,595	3,126,442
Non-Current Assets					
Receivables	9	117,677	30,853	117,677	30,853
Other financial assets	10	-	-	20	20
Plant and equipment	12	1,142,573	1,096,525	1,138,428	1,091,912
Total Non-Current Assets		1,260,250	1,127,378	1,256,125	1,122,785
TOTAL ASSETS		3,524,617	4,358,889	3,398,720	4,249,227
Current Liabilities					
Payables	13	447,789	345,612	612,567	291,966
Interest-bearing liabilities	14	1,155	4,017	1,155	4,017
Unearned income	15	31,558	42,171	31,558	42,171
Provisions	16	22,909	31,342	22,909	31,342
Total Current Liabilities		503,411	423,142	668,189	369,496
Non-Current Liabilities					
Unearned income	17	251,372	44,772	251,372	44,772
Interest-bearing liabilities	18	-	1,081	-	1,081
Total Non-Current Liabilities		251,372	45,853	251,372	45,853
TOTAL LIABILITIES		754,783	468,995	919,561	415,349
NET ASSETS		2,769,834	3,889,894	2,479,159	3,833,878
EQUITY					
Contributed equity	19	6,680,633	6,630,693	6,680,633	6,630,693
Accumulated losses	20	(3,910,799)	(2,740,799)	(4,201,474)	(2,796,815)
TOTAL EQUITY		2,769,834	3,889,894	2,479,159	3,833,878

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Statement of Cash Flows

YEAR ENDED 30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003 \$	2002 \$	2003 \$	2002 \$
Cash Flows from Operating Activities					
Receipts from customers		1,945,442	349,544	1,361,667	325,435
Payments to suppliers and employees		(3,019,406)	(1,564,230)	(2,435,625)	(1,540,109)
Interest received		122,630	26,420	122,630	26,420
Borrowing costs paid		(11,875)	(6,833)	(11,875)	(6,833)
Net Cash Flows (Used In) Operating Activities	21(a)	(963,203)	(1,195,099)	(963,203)	(1,195,087)
Cash Flows from Investing Activities					
Proceeds from sale of plant and equipment		12,194	-	12,194	-
Purchase of plant and equipment		(307,463)	(195,313)	(307,463)	(190,583)
Advances to related parties		-	-	-	(4,742)
Net Cash Flows (Used In) Investing Activities		(295,269)	(195,313)	(295,269)	(195,325)
Cash Flows from Financing Activities					
Proceeds from issue of convertible notes		-	501,500	-	501,500
Payment of convertible note issue costs		-	(10,000)	-	(10,000)
Proceeds from issues of ordinary shares		-	4,150,000	-	4,150,000
Payment of share issue costs		-	(841,999)	-	(841,999)
Repayment of finance lease principal		(3,943)	(3,565)	(3,943)	(3,565)
Net Cash Flows (Used in)/From Financing Activities		(3,943)	3,795,936	(3,943)	3,795,936
NET (DECREASE)/INCREASE IN CASH HELD		(1,262,415)	2,405,524	(1,262,415)	2,405,524
Add opening cash brought forward		2,897,892	492,368	2,897,892	492,368
CLOSING CASH CARRIED FORWARD	21(b)	1,635,477	2,897,892	1,635,477	2,897,892

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

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

The financial report is for Cryosite Limited, a company limited by shares, incorporated and domiciled in Australia.

The financial report has been prepared in accordance with the historical cost convention. Cost is based on the fair values of consideration given in exchange for assets.

The following is a summary of material accounting policies adopted in the preparation of the financial report. The accounting policies are consistent with the prior year unless otherwise stated.

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

b) Change in accounting policy

The accounting policies adopted are consistent with those of the previous year, except for the accounting policy with respect to the expensing of options granted.

The consolidated entity has changed its accounting policy in relation to accounting for options. Previously the consolidated entity did not recognise any amounts in relation to options granted. The consolidated entity now expenses the calculated cost of the options granted over the period from grant date to the expected exercise date. The change in accounting policy has been made to more appropriately reflect in the Statement of Financial Performance the value of services received during the year to the consolidated entity. The value of options expensed in the current period was \$49,940. The amount of the adjustment relating to the prior financial year was not material.

c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Cryosite Limited (the parent company) and all entities that Cryosite Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

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 arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Notes to the Financial Statements *continued*

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

d) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the consolidated entity that are outstanding at the reporting date and are denominated in foreign currencies are translated at the spot rate at the end of the financial year.

e) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and at call deposits with banks or financial institutions.

f) Receivables

Trade receivables (Current) are recognised and carried at original invoice amount less a provision for any uncollectible debts.

Trade receivables (Non-current) are carried at their net present value. The expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate of 17.5%.

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

g) Investments

All non-current investments are carried at the lower of cost and recoverable amount.

h) Inventories

Inventories consist of consumables used in the provision of services. Inventories are valued at the lower of cost and net realisable value. Cost is determined by actual purchase price.

i) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.

j) Plant and equipment

Cost and valuation

All classes of plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment over their useful lives to the company, commencing from the time the asset is first held ready for use on a commercial basis.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

Major depreciation rates are:	2003	2002
Leasehold improvements:	Lease term	Lease term
Plant and equipment:		
- fixtures and fittings	10 – 20 years	10 – 20 years
- information technology	2.5 – 5 years	2.5 – 5 years
- warehouse equipment	10 years	10 years
- office furniture & equipment	6 – 8 years	6 – 8 years
Software development	5 years	5 years
Plant & equipment under lease	8 years	8 years

k) **Leases**

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

Operating leases

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

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

l) **Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount and are non-interest bearing.

m) **Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 “Leases”.

n) **Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividend is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

o) **Contributed equity**

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders. Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Convertible notes have been classified as an equity instrument in accordance with AASB 1033 “Presentation and Disclosure of Financial Instruments” and are recognised as the fair value of the consideration received by the Company.

p) **Revenue recognition**

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

- Revenue from the archival storage of biological samples is recognised over the period that storage occurs.
- Revenue from the rendering of non-storage services, such as collection or distribution of biological samples, is recognised upon the delivery of the service to the customers.
- Revenue received in advance for provision of services under a long-term contract is recognised at net present value with the balance being treated as unearned income in the statement of financial position.
- Revenue where services are provided in advance of payment under a long term contract are recognised at net present value with the balance outstanding taken to receivables. A corresponding amount is recognised as unearned income in the statement of financial position.
- Interest revenue is recognised on a proportional basis taking into consideration the interest rates applicable to the financial assets.

q) **Taxes**

Income taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits relating to timing differences are not brought to account unless realisation is assured beyond any reasonable doubt. Future income tax benefits relating to tax losses are not brought to account unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

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

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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

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

r) **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 based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit 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 market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefits 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 leave benefits; and
- other types of employee benefits

are recognised against profits on a net basis in their respective categories.

s) **Earnings per share**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

t) **Equity Based Compensation**

Where equity, including options, forms part of a service contract, director's or employee's remuneration the value of that equity is taken up as an expense in the financial statements by apportioning the expense over the period from grant date to likely exercise date.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements continued

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
2. REVENUE FROM ORDINARY ACTIVITIES					
Revenues from operating activities					
Revenue from services		1,902,666	460,919	1,357,031	284,279
Total revenues from operating activities		1,902,666	460,919	1,357,031	284,279
Revenues from non-operating activities					
Interest from other persons/corporations		116,713	37,195	116,713	37,195
Proceeds from sale of plant & equipment		12,194	-	12,194	-
Total revenues from non-operating activities		128,907	37,195	128,907	37,195
Total revenues from ordinary activities		2,031,573	498,114	1,485,938	321,474
3. EXPENSES AND LOSSES/ (GAINS)					
(a) Expenses					
Depreciation of non-current assets					
Software development costs		105,484	102,510	105,484	102,510
Plant and equipment		108,488	84,460	108,021	84,343
Leased assets		1,655	1,654	1,655	1,654
Total depreciation		215,627	188,624	215,160	188,507
Amortisation					
Leasehold improvements		39,516	35,266	39,516	35,266
Total amortisation		39,516	35,266	39,516	35,266
Total depreciation and amortisation expense		255,143	223,890	254,676	223,773
Borrowing costs expensed – other		11,875	6,833	11,875	6,833
Decrement in value of inventories		-	23,773	-	23,773
Operating lease rental		114,104	107,963	114,104	107,963
Options expense		49,940	-	49,940	-
(b) Losses/ (gains)					
Net foreign currency (gains)		(968)	(1,137)	-	-
Net (gain) on sale of plant & equipment		(5,922)	-	(5,922)	-

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
3. EXPENSES AND LOSSES/ (GAINS) continued					
(c) Significant items					
	Loss from ordinary activities before tax includes the following material revenues and expenses. Reversal of directors' fees accrual (credit)	-	(184,846)	-	(184,846)
4. INCOME TAX					
	The prima facie tax at 30%(2002: 30%) on profit differs from the income tax provided in the financial statements as follows:				
	Prima facie tax benefit on loss from ordinary activities	351,000	367,297	421,398	384,102
	Tax effect of permanent differences				
	Options expense	(14,982)	-	(14,982)	-
	Other items (net)	(18,723)	38,790	(19,013)	38,790
	Tax losses not brought to account	(317,295)	(406,087)	(387,403)	(422,892)
	Income tax expense attributable to ordinary activities	-	-	-	-
(a) Income tax losses					
	Future income tax benefit arising from tax losses not brought to account at reporting date as realisation of the benefit is not regarded as virtually certain	1,107,638	790,343	1,193,951	806,548

This future income tax benefit will only be obtained if:

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

Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Cryosite Limited and its 100% owned subsidiary intends to form a tax consolidated group. Members of the group will enter into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiary on a pro-rata basis. The head entity of the tax consolidated group will be Cryosite Limited.

There has been no material effect on the group's tax balances as a result of the group accounting for tax as if it had formed a tax consolidated group. Cryosite Limited has not formally notified the Australian Taxation Office of its adoption of the tax consolidation regime

5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

No dividends have been provided for or paid due to accumulated losses as at 30 June 2003 (2002: nil).

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003 \$	2002 \$	2003 \$	2002 \$
6. RECEIVABLES (CURRENT)					
Trade debtors	6(a)	458,705	200,337	336,933	47,806
Other receivables	6(b)	54,106	80,367	54,106	86,170
Amounts other than trade debts receivable from related parties:					
Wholly-owned group					
– controlled entities	30	-	-	-	45,063
		512,811	280,704	391,039	179,039
(a) Trade debtors are non-interest bearing and are on 30-day terms or either a 2-year or an 18-year payment plan. Refer to Note 1 for details of the revenue recognition policy.					
(b) Other receivables are non-interest bearing					
7. INVENTORIES (CURRENT)					
Raw materials and stores at cost		19,650	6,955	19,650	5,551
Total inventories at cost		19,650	6,955	19,650	5,551
8. OTHER CURRENT ASSETS					
Prepayments		96,429	45,960	96,429	43,960
9. RECEIVABLES (NON-CURRENT)					
Trade debtors	9(a)	86,824	-	86,824	-
Other receivables – rental bond	9(b)	30,853	30,853	30,853	30,853
		117,677	30,853	117,677	30,853
(a) Trade debtors terms see Note 6 (a)(i)					
(b) Other receivables are non- interest bearing.					
10. OTHER FINANCIAL ASSETS (NON-CURRENT)					
Investments at cost comprise:					
Controlled entities – unlisted	11	-	-	20	20
11. INTERESTS IN SUBSIDIARIES					
		Equity interest held by the consolidated entity		Investment	
Name - Cryosite Distribution Pty Limited		2003 %	2002 %	2003 \$	2002 \$
Country of incorporation – Australia		100	100	20	20

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements continued

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
12. PLANT AND EQUIPMENT					
Leasehold improvements					
At cost		201,017	195,034	201,017	195,034
Accumulated amortisation		(84,998)	(45,482)	(84,998)	(45,482)
	12(a)	116,019	149,552	116,019	149,552
Plant and equipment under lease					
At cost		13,791	13,791	13,791	13,791
Accumulated depreciation		(4,411)	(2,756)	(4,411)	(2,756)
	12(a)	9,380	11,035	9,380	11,035
Software					
At cost		560,482	512,775	560,482	512,775
Accumulated depreciation		(207,994)	(102,510)	(207,994)	(102,510)
	12(a)	352,488	410,265	352,488	410,265
Plant and equipment owned					
At cost		894,906	651,627	890,176	646,897
Accumulated depreciation		(230,220)	(125,954)	(229,635)	(125,837)
	12(a)	664,686	525,673	660,541	521,060
Total Plant and equipment		1,142,573	1,096,525	1,138,428	1,091,912
(a) Reconciliations					
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.					
<i>Leasehold Improvements</i>					
Carrying amount at beginning		149,552	184,818	149,552	184,818
Additions		5,983	-	5,983	-
Amortisation expense		(39,516)	(35,266)	(39,516)	(35,266)
		116,019	149,552	116,019	149,552
<i>Plant and equipment under lease</i>					
Carrying amount at beginning		11,035	12,689	11,035	12,689
Depreciation expense		(1,655)	(1,654)	(1,655)	(1,654)
		9,380	11,035	9,380	11,035
<i>Software development costs</i>					
Carrying amount at beginning		410,265	512,775	410,265	512,775
Additions		47,707	-	47,707	-
Depreciation expense		(105,484)	(102,510)	(105,484)	(102,510)
		352,488	410,265	352,488	410,265
<i>Plant and equipment owned</i>					
Carrying amount at beginning		525,672	414,820	521,060	414,820
Additions		253,773	195,313	253,773	190,583
Disposals		(6,271)	-	(6,271)	-
Depreciation expense		(108,488)	(84,460)	(108,021)	(84,343)
		664,686	525,672	660,541	521,060

Assets under lease are pledged as security for the associated leases.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements continued

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
13. PAYABLES (CURRENT)					
Trade creditors	13(a)(b)	240,173	129,699	178,045	46,426
Other creditors and accruals	13(b)	207,616	207,411	199,176	196,697
		447,789	337,110	377,221	243,123
Aggregate amounts payable to related parties:					
Wholly-owned group – controlled entity					
Directors and director-related entities		-	-	235,346	40,341
– former directors and related entities		-	8,502	-	8,502
		-	8,502	235,346	48,843
Total payables		447,789	345,612	612,567	291,966
(a) Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:					
– United States dollars		44,540	79,847	-	-
(b) Terms and conditions:					
(i) Trade creditors are non-interest bearing and are normally settled on 30-day terms					
(ii) Other creditors are non-interest bearing					
14. INTEREST-BEARING LIABILITIES (CURRENT)					
Lease liability	22	1,155	4,017	1,155	4,017
15. UNEARNED INCOME (CURRENT)					
Unearned service revenue	15(a)	31,558	42,171	31,558	42,171
(a) Represents revenue received in advance for services to be rendered under long-term storage contracts.					
16. PROVISIONS (CURRENT)					
Employee benefits	23	22,909	31,342	22,909	31,342
17. UNEARNED INCOME (NON-CURRENT)					
Unearned service revenue	15(a)	251,372	44,772	251,372	44,772

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
18. INTEREST-BEARING LIABILITIES (NON-CURRENT)					
Lease liability	22	-	1,081	-	1,081
19. CONTRIBUTED EQUITY					
a) Issued and paid up capital					
Ordinary shares fully paid		6,680,633	6,630,693	6,680,633	6,630,693
Convertible notes		-	-	-	-
		6,680,633	6,630,693	6,680,633	6,630,693

b) Movements in shares on issue

	2003			2002		
	Issued and fully paid ordinary shares	Convertible notes		Issued and fully paid ordinary shares	Convertible notes	
	Shares	\$	\$	Shares	\$	\$
Beginning of the financial year	35,375,000	6,630,693	-	40	40	2,831,152
Fair value of options granted during the year Note 19 (c)	-	49,940	-	-	-	-
Non-renouncable convertible notes rights issue (i)	-	-	-	-	-	501,500
Less issue costs on rights issue (i)	-	-	-	-	-	(10,000)
First share conversion of ordinary shares (ii)	-	-	-	999,960	-	-
Second share conversion of ordinary shares (iii)	-	-	-	7,500,000	-	-
Conversion of convertible notes to ordinary shares (iv)	-	-	-	29,762,750	3,322,652	(3,322,652)
Consolidation of shares on issue (v)	-	-	-	(13,262,750)	-	-
Issue of ordinary shares (vi)	-	-	-	1,500,000	600,000	-
Ordinary shares issued in Initial Public Offering (vii)	-	-	-	8,875,000	3,550,000	-
Less issue costs on public equity raising (vii)	-	-	-	-	(841,999)	-
End of the financial year	35,375,000	6,680,633	-	35,375,000	6,630,693	-

- (i) During the prior year, the company completed a non-renouncable Convertible Notes Rights Issue with a face value of \$501,500. The costs of the issue totalled \$10,000.
- (ii) During the prior year an extraordinary general meeting held on 3 September 2001 resolved to convert the Company from a proprietary to a public structure. The meeting also passed a resolution to conduct a share split where the 40 fully paid ordinary shares were converted into 1,000,000 fully paid ordinary shares.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

19. CONTRIBUTED EQUITY *continued*

- (iii) During the prior year on 10 October 2001, the shareholders approved by circular resolution a share split where the 1,000,000 fully paid ordinary shares were converted into 8,500,000 fully paid ordinary shares.
- (iv) During the prior year on 14 January 2002, all previously issued Convertible Notes with a face value totalling \$3,501,500 and associated costs of \$178,848 were converted, by agreement between the note holders and the Company, into 29,762,750 fully paid ordinary shares.
- (v) During the prior year on 14 February 2002, the shareholders resolved to consolidate the number of shares on issue from 38,262,750 to 25,000,000.
- (vi) During the prior year on 27 February 2002, the Company issued 1,500,000 ordinary shares at \$0.40 each, for proceeds of \$600,000 with nil issue costs. The purpose of the issue was to assist with working capital requirements.
- (vii) During the prior year on 9 May 2002, through the Initial Public Offering, the Company issued 8,875,000 fully paid ordinary shares at \$0.40 each, for proceeds of \$3,550,000. Transaction costs associated with this issue totalled \$841,999.

c) Share Options

Options over ordinary shares:

Employee share scheme

At the end of the year there were 1,300,000 (2002: 1,662,500) unissued ordinary shares in respect of which options were outstanding under the employee share scheme.

	2003		2002	
	Number of options	Exercise price	Number of options	Exercise price
Balance at beginning of year	1,662,500	0.40	-	-
- granted to non-executive directors (1)	-		750,000	0.40
- granted to executives and staff (2)	-		912,500	0.40
- forfeited by executive and staff	(362,500)	0.40	-	-
- exercised during the year	-		-	
Balance at end of year	1,300,000	0.40	1,662,500	0.40
Exercisable at end of year				
- by executive and staff	110,000	0.40	-	-

Terms and conditions of options issued under Employee Share Scheme details

On 18 February 2002, Cryosite established an Employee Share Option Plan ("the Plan"). The Plan is designed to assist in the retention and motivation of employees and directors of the Company.

The terms and conditions of the Plan are as follows;

- (i) Options may be granted under the Plan to an employee or director of the Company or any of its subsidiaries, or to a person who renders services to the Company, or to any of its subsidiaries and is eligible to be a participant in the Plan under the terms of the Income Tax Assessment Act 1936 and Income Tax Assessment Act 1997 and by any instrument issued by ASIC and applicable to the Company ("eligible participant").
- (ii) The Cryosite Board will determine the number of share options granted to each eligible participant.
- (iii) The total number of share options granted under the Plan will be limited to 5% of the total number of issued shares at the time the offer or grant of options is made.
- (iv) Options will be issued for no consideration.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

19. CONTRIBUTED EQUITY *continued*

- (v) The Board will determine the Option Exercise Price after considering the volume weighted average of the prices at which shares were traded on ASX during the one month period before the date of the offer.
- (vi) Options will expire at the end of eight years from the option grant date or if the participant ceases to be an employee or director of, or render services to, the Company or any of its Subsidiaries for any reason whatsoever.

(1) Terms and conditions specific to the options issued to Non-Executive Directors in the prior year under the Plan were:

- (i) The exercise price of each initial option issued under the Plan was the retail offer price included in the prospectus for the Initial Public Offering.
- (ii) Options granted to Non Executive Directors under the Plan will only become exercisable if the consolidated Earnings Before Interest and Tax for year ending 30 June 2004 is a positive number.
- (iii) For the initial options granted to employees and the Executive Director under the Plan, 20% will become exercisable after the first anniversary of listing on ASX and an additional 20% will become exercisable each anniversary of listing thereafter.

(2) Terms and conditions specific to the options issued to the Executive Director and staff in the prior year under the Plan were:

- (i) The exercise price of each initial option issued under the Plan was the retail offer price included in the prospectus for the Initial Public Offering.
- (ii) For the initial options granted to employees and the Executive Director under the Plan, 20% will become exercisable after the first anniversary of listing on ASX and an additional 20% will become exercisable each anniversary of listing thereafter.

Share based option payments

At the end of the year there were 950,000 (2002: Nil) unissued ordinary shares in respect of which options were outstanding issued for the provision of services.

	Number of options	2003 Exercise price	Expense for year	2002 Number of options	Exercise price
Balance at beginning of year	-	-		-	-
- granted to R Grellman (Chairman) on appointment as non-executive director	500,000	0.40	15,608	-	-
- granted to M Hale for the provision of marketing services.	450,000	0.40	34,332	-	-
Balance at end of year	950,000	0.40	49,940	-	-
Exercisable at end of year: M Hale	150,000	0.40		-	-

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

19. CONTRIBUTED EQUITY *continued*

Parties to option agreement	R Grellman – Chairman	M Hale – Advertising and Marketing Consultant
Rights Granted and grant date	500,000 Share options granted on 27 November 02	450,000 Share options granted 1 July 02
Option exercise price	Fixed at 40 cents per share	Fixed at 40 cents per share
Vesting period	165,000 on 27 November 2003 165,000 on 27 November 2004 170,000 on 27 November 2005 Options must be exercised no later than 5 years from vesting date.	Options vest at the rate of 12,500 per month from grant date. Options will be exercisable within 3 years of vesting in multiples of 10,000
Vesting requirements	No vesting conditions apply, options granted as part of remuneration package as chairman. Options lapse on cessation as a director of the company.	Options vest on continued supply of marketing consulting services to the company. Options lapse on cessation of provision of those services.
Weighted average fair value of options at grant date	\$105,000	\$173,250
Expense for the year	\$ 15,608	\$ 34,332
Balance at the end of the financial year not yet expensed	\$ 89,392	\$138,918
Calculation of fair value of option	Valuation was made using the binomial method in accordance with the requirements of financial accounting standards. Calculations were based on the expected contractual life of the options using the average weekly historical share price of the company over the previous 12 months The expected volatility used was 0.708 with an interest-free risk rate of 5.05%. The market share price at date of grant was 38 cents	Valuation was made using the binomial method in accordance with the requirements of financial accounting standards. Calculations were based on the expected contractual life of the options using the average weekly historical share price of the company over the previous 12 months The expected volatility used was 0.708 with an interest-free risk rate of 5.05%. The market share price at date of grant was 64 cents

d) Terms and condition of contributed equity

Ordinary shares

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

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements continued

	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
20. ACCUMULATED LOSSES					
Accumulated Losses	20(a)	(3,910,799)	(2,740,799)	(4,201,474)	(2,796,815)
(a) Movement in accumulated losses					
Balance at the beginning of year		(2,740,799)	(1,516,474)	(2,796,815)	(1,516,474)
Net loss attributable to members of Cryosite Limited		(1,170,000)	(1,224,325)	(1,404,659)	(1,280,341)
Balance at end of year		(3,910,799)	(2,740,799)	(4,201,474)	(2,796,815)
21. STATEMENT OF CASH FLOWS					
(a) Reconciliation of the net loss after tax to the net cash flows from operations					
Net (loss)		(1,170,000)	(1,224,325)	(1,404,659)	(1,280,341)
<i>Non-Cash Items</i>					
Depreciation and amortisation of non-current assets		255,143	223,890	254,675	223,773
Options expense		49,940	-	49,940	-
Net profit on disposal of plant & equipment		(5,922)	-	(5,922)	-
(Increment)/decrement in value of inventory		-	23,773	-	23,773
Foreign Currency Gain		(968)	(1,137)	-	-
Changes in assets and liabilities					
(Increase)/decrease in trade and other receivables		(246,534)	(251,470)	(289,127)	(104,849)
(Increase)/decrease in inventory		(12,695)	(6,860)	(14,099)	(5,456)
(Increase)/decrease in other assets		(122,866)	(21,104)	(64,261)	(19,104)
(Decrease)/increase in trade and other creditors		197,010	(42,878)	416,561	(137,895)
(Decrease)/increase in unearned income		102,122	86,629	102,122	86,629
(Decrease)/increase in employee benefits		(8,433)	18,383	(8,433)	18,383
Net cash flow (used) in operating activities		(963,203)	(1,195,099)	(963,203)	(1,195,087)
(b) Reconciliation of cash					
Cash balance comprises:					
- cash on hand and at bank		235,477	397,892	235,477	397,892
- term deposits		1,400,000	2,500,000	1,400,000	2,500,000
Closing cash balance		1,635,477	2,897,892	1,635,477	2,897,892

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements continued

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
22. EXPENDITURE COMMITMENTS					
(a) Lease expenditure commitments					
<i>(i) Operating leases (non-cancellable):</i>					
Minimum lease payments					
– not later than one year		125,988	125,988	125,988	125,988
– later than one year and not later than five years		8,749	125,988	8,749	125,988
– aggregate lease expenditure contracted for but not provided at balance date		134,737	251,976	134,737	251,976
The property lease is a non-cancellable lease for a two-year term commencing 19 July 2002, with a three year option period.					
<i>(ii) Finance leases:</i>					
– not later than one year		1,258	4,442	1,258	4,442
– later than one year and not later than five years		-	1,111	-	1,111
– total minimum lease payments		1,258	5,553	1,258	5,553
– future finance charges		(103)	(455)	(103)	(455)
– lease liability		1,155	5,098	1,155	5,098
– current liability	14	1,155	4,017	1,155	4,017
– non-current liability	18	-	1,081	-	1,081
		1,155	5,098	1,155	5,098

Finance leases have an average remaining lease term of 1 year, at which time the company will take ownership of the assets. The average discount rate implicit in the leases is 12% (2002: 12%). Secured lease liabilities are secured by a charge over the leased assets

(b) Operating expenditure commitments					
Operating expenditure commitments contracted for at balance date but not provided for:					
– not later than one year		69,000	69,000	69,000	69,000
– later than one year and not later than five years		69,000	-	69,000	-
		138,000	69,000	138,000	69,000

The operating expenditure commitment is in relation to an IT maintenance contract.

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements continued

30 JUNE 2003	Notes	Consolidated		Cryosite Limited	
		2003	2002	2003	2002
		\$	\$	\$	\$
23. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS					
Employee Benefits					
The aggregate employee benefit liability is comprised of:					
Accrued wages, salaries and on costs		17,767	65,257	17,767	65,257
Provisions (current)		22,909	31,342	22,909	31,342
		40,676	96,599	40,676	96,599

The company had an average of 10 (2002: 7) full time equivalent employees during the year. Superannuation contributions by the economic entity of 9% of employees' wages and salaries are legally enforceable in Australia.

24. CONTINGENT LIABILITIES

The Company is not aware of any contingent liabilities neither at the end of the financial year nor at the date of this report.

25. SUBSEQUENT EVENTS

Since the end of the financial year no other matters of significance have occurred since the financial year and up to the date of this report.

26. EARNINGS PER SHARE

	2003	Consolidated	
	Unadjusted	Unadjusted	2002 Adjusted
Basic earnings per share	(3.31) cents	(7.5) cents	(3.5) cents
Diluted earnings per share	(3.31) cents	(7.5) cents	(3.5) cents
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:			
Net loss used in calculating basic and diluted earnings per share	(1,170,000)	(1,224,325)	(1,224,325)
Weighted average number of ordinary shares used in calculating basic earnings per share:	35,375,000	16,302,616	35,375,000
Effect of dilutive securities:			
Share options	-	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	35,375,000	16,302,616	35,375,000
Number of potential ordinary shares that are non dilutive.	383,654	383,654	383,654

In the prior year due to the major capital restructuring undertaken during the financial year, an adjusted Basic and Diluted EPS has been calculated, which more appropriately represent the earnings per share for that year. These adjusted calculations assume the weighted average number of ordinary shares on issue for the year to be the weighted average number of shares on issue since the listing date, 9 May 2002. It does not reflect the effect of the capital transactions prior to 9 May 2002

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements continued

Notes	Consolidated		Cryosite Limited	
	2003 \$	2002 \$	2003 \$	2002 \$
27. REMUNERATION OF DIRECTORS				
(a) Directors' remuneration Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:	*	235,608	102,058	
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Cryosite Limited, directly or indirectly, from the entity or any related party:			235,608	102,058
The number of directors of Cryosite Limited whose income (including superannuation contributions) falls within the following bands is:				
\$0 – \$ 9,999			-	1
\$ 10,000 – \$ 19,999			-	3
\$ 20,000 – \$ 29,999			2	-
\$ 30,000 – \$ 39,999			1	-
\$ 40,000 – \$ 49,999			1	1
\$120,000 – \$129,999			1	-

* The cost of the options expensed in the financial statements is different to the amount disclosed under director's remuneration in the directors' report. The calculated cost of the options included in the financial statements of \$15,608 is calculated by expensing the total cost over the period from grant date to expected exercise date. This is in compliance with current best practice guidelines. The cost included in the directors' report of \$20,417 is calculated by expensing the total cost over the period from grant date to vesting date in compliance with ASIC recommendations.

28. REMUNERATION OF EXECUTIVES				
Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise:		125,000	126,000	
Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the affairs of the company or any of its subsidiaries, whether as an executive officer or otherwise			125,000	126,000

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

Notes to the Financial Statements *continued*

28. REMUNERATION OF EXECUTIVES *continued*

	No.	No.	No.	No.
The number of executives of the consolidated entity and the company whose remuneration falls within the following bands:				
\$120,000 – \$129,999	1	1	1	1

29. AUDITORS' REMUNERATION

Amounts received or due and receivable by Ernst & Young for:

– an audit or review of the financial report of the entity and any other entity in the consolidated entity	44,000	25,000	44,000	25,000
– other services in relation to the entity and any other entity in the consolidated entity (i)	17,100	163,000	17,100	163,000
	61,100	188,000	61,100	188,000

- (i) In the prior year costs of \$145,000 relating to the Independent Accountant's Report are included in the transaction costs relating to the public equity raising and do not form part of the expenses of the consolidated entity for the year ended 30 June 2002.

30. RELATED PARTY DISCLOSURES

Directors

The directors of Cryosite Limited during the financial year were:

Mr. Richard Grellman (Chairman) – was elected a non executive director on 27 November 2002 and was appointed Chairman on 18 December 2002

Mr. Theodore Onisforou – resigned as chairman on 18 December 2002 and remains as a non executive director

Prof. Ronald Penny AO

Mr. Peter French

Mr. Gordon Milliken (Managing Director)

Director-related entity transactions

During the prior year, fees were paid or are payable (including GST) to Director-related entities for advice in relation to the Company's public listing on the ASX, at normal commercial rates, as follows:

Former Director	Related Party	Purpose	2003 \$	2002 \$
Mr Ken Frey	Hanbury Pty Ltd	Corporate Advice	-	55,000

Equity instruments of directors

Interests at balance date

Directors' interests in equity instruments of Cryosite Limited are detailed in the Directors Report.

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

Notes to the Financial Statements *continued*

30. RELATED PARTY DISCLOSURES *continued*

Wholly-owned group transactions

Loans

Cryosite Distribution Pty Limited, the wholly-owned subsidiary of Cryosite Limited does not hold any cash in its own right. Therefore, all receipts and payments for this entity are made by Cryosite Limited, with the amounts charged against an intercompany loan account. No interest is payable on this balance.

Ultimate parent

Cryosite Limited is the ultimate parent company.

31. SEGMENT INFORMATION

The company operates in one business segment, being biological services, and one geographic segment, being Australia.

32. FINANCIAL INSTRUMENTS

a) **Interest rate risk**

The floating weighted average interest rate on the Company's at call bank accounts during the year was approximately 4.75% (2002: 4.10%). The fixed weighted average interest rate on the term deposit during the year was 5.68% (2002: 5.68%). The fixed weighted average interest rate implicit in the lease liabilities during the year was 12% (2002: 12%). All other financial assets and liabilities are non-interest bearing.

b) **Net fair values**

The carrying values in the Statement of Financial Position approximate the fair value of all financial assets and liabilities of the Company.

c) **Credit risk exposure**

The Company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Performance. There is no concentration of credit risk.

Independent audit report to members of Cryosite Limited

SCOPE

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Cryosite Limited (the 'company') and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

INDEPENDENCE

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

AUDIT OPINION

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

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

Ernst & Young

Douglas Bain
Partner

Sydney
4 September 2003

CRYOSITE LIMITED AND ITS CONTROLLED ENTITY

ASX Additional Shareholder Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 29 August 2003.

a) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

	Listed ordinary shares	
	Number of shares	% of ordinary shares
Strategic Pooled Development Ltd	6,247,917	17.66
Westpac Custodian Nominees Ltd	2,939,013	8.31
Lost Ark Nominees Pty Ltd	1,845,063	5.22
Merrill Lynch (Australia) Nominees Ltd	1,502,269	4.25
PA Biologicals Limited	1,443,963	4.08
All State Secretariat Ltd	1,163,667	3.29
Sentra Investments Pty Ltd	969,956	2.74
McRoss Developments Pty Ltd	900,000	2.54
Prof Ronald Penny	780,990	2.21
Mrs D A Kroger	746,184	2.11
Dr P French	721,982	2.04
MHGD Pty Ltd	705,024	1.99
Donald Dyer	694,213	1.96
Mr Gordon Milliken	694,213	1.96
Ms J Nettleton	694,213	1.96
Mr GL Snowden & Mrs P Snowden	670,896	1.90
Everken Pty Ltd	555,370	1.57
SHR Pty Ltd	515,313	1.46
Foster Stockbroking Pty Ltd	458,056	1.29
Marcus Wholesale Pty Ltd	381,792	1.09
Total	24,630,094	69.63

b) Distribution of equity securities

The number of shareholders by size of holding in each class of shares are:

		Ordinary Shares	
		Number of holders	Number of Shares
1	1,000	28	22,639
1,001	5,000	401	1,687,226
5,001	10,000	73	630,460
10,001	100,000	124	4,499,925
100,001	and over	37	28,534,750
Total		663	35,375,000

The number of shareholders holding less than a marketable parcel of shares is 56.

ASX Additional Shareholder Information continued

c) **Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 is:

Strategic Pooled Developments Limited has a relevant interest in 6,247,917 shares (17.66%) of the issued capital

d) **Voting Rights**

All ordinary shares carry one vote per share without restriction.