

**Appendix 4E**  
**Preliminary final report**

Name of entity

**Xceed Capital Limited**

ABN or equivalent company reference

79 009 181 006

Financial year ended ('current period')

30 June 2008

**Results for announcement to the market**

\$A'000

Revenues from ordinary activities	Up	16%	to	4,910
Loss from ordinary activities after tax attributable to members	Down	12%	to	(1,737)
Net Loss for the period attributable to members	Down	12%	to	(1,737)

<b>Dividends (distributions)</b>	Amount per security	Franked amount per security
Final dividend	N/A	N/A
Previous corresponding period	N/A	N/A
Record date for determining entitlements to the dividend		N/A

<b>Earnings per security (EPS)</b>	Current period	Previous corresponding Period
Basic and Diluted EPS (loss)	(1.74) Cents	(2.19) Cents

<b>NTA backing</b>	Current Period	Previous corresponding Period
Net tangible asset backing per ordinary security	2.4 cents	5.5 cents

**Explanation of Revenue and Loss from ordinary activities**

Refer to Directors Report in the financial statements which follows this announcement under the heading "Review of Operations".

**Commentary on results**

Refer to the Directors Report and Financial Statements

**Income Statement, Balance Sheet, Cash Flow and retained earnings and accumulated losses**

Refer to the attached financial statements

**Other Significant items**

Refer to the Directors Report and Financial Statements

**Audit**

The audit of the Financial Statements for Xceed Capital Limited has been completed.

**XCEED CAPITAL LIMITED**  
**(ABN 79 009 181 006)**

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**FINANCIAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED**  
**30 JUNE 2008**

**XCEED CAPITAL LIMITED**  
**CORPORATE DIRECTORY**

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**Directors**

**Non-Executive Chairman**

Mr Patrick O'Connor

**Executive Directors**

Dr Stewart Washer  
Mr George Cameron-Dow

**Non-Executive Directors**

Dr Ian Griffiths  
Mr Peter Francis  
Mr Tony Adcock

**Company Secretary**

Ms Adela Richards

**Registered and Principal Office**

Level 9  
105 St Georges Terrace  
Perth  
Western Australia, 6000

Telephone : (08) 9226 0329  
Facsimile : (08) 9226 0327

**Share Registry**

Security Transfer Registrars  
770 Canning Highway  
Applecross  
Western Australia 6953

Telephone : (08) 9315 0933  
Facsimile : (08) 9315 2233

**Website**

[www.xceedcapital.com](http://www.xceedcapital.com)

**Auditors**

Ernst & Young  
8 Exhibition Street  
Melbourne  
Victoria 3000

**Bankers**

National Australia Bank  
50 St Georges Terrace  
Perth  
Western Australia 6000

**Solicitors**

Steinepreis Paganin  
Level 4, Next Building  
16 Milligan Street  
Perth  
Western Australia 6000

**Securities Exchange**

Australian Securities Exchange  
Exchange Plaza  
2 The Esplanade  
Perth  
Western Australia 6000

**ASX Code**

XCD – Shares  
XCDO – Options

**Subsidiary Companies' websites**

[www.polynovo.com](http://www.polynovo.com)  
[www.boronmolecular.com](http://www.boronmolecular.com)

**XCEED CAPITAL LIMITED**  
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# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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The directors present their report together with the financial report of Xceed Capital Limited ("Xceed" or "The Company") for the financial year ended 30 June 2008, the consolidated financial report of the consolidated entity for the financial year ended 30 June 2008, and the independent auditors' report thereon.

### **Directors**

The name and details of the Company's directors in office during the financial year and until the date of this report are as follows:

#### **Names, Qualifications and Special Responsibilities**

##### **Patrick O'Connor BCom, SEP Stanford (USA), FAICD**

##### **Non-Executive Chairman**

**Appointed Chairman: 3 June 2005**

**Appointed Director: 5 May 2005**

Mr O'Connor is currently an Executive Director of independent boutique investment management company St George Capital Pty Ltd. He has extensive leadership skills and wide experience in communicating with capital markets, shareholders and media.

Mr O'Connor is also the Executive Chairman (since February 2008) of Perilya Limited (ASX: PEM) (Non-Executive Chairman since February 2006), and Non-Executive Chairman of the Water Corporation (Director since January 2003).

##### *Other Listed Public Company Directorships in the last 3 years:*

Non-Executive Director of Adelphi Energy Limited (June 2002 – March 2007)

Non-Executive Chairman of Acuron Limited (August 2004 – June 2006)

Non-Executive Director of OceanaGold Limited (December 2003 – January 2006).

Mr O'Connor is Chairman of the Remuneration Committee and a member of the Audit and Risk Committee.

##### **Stewart Washer BSc, Ph.D Biotechnology**

##### **Executive Director**

**Appointed: 7 May 2008**

Dr Washer has over 14 years of senior executive and board experience in commercial technology companies in the medical, food, agricultural and industrial sectors.

Dr Washer was previously the founding Chief Executive Officer of Phylogica Ltd (ASX: PYC) (January 2005 – February 2008), is currently a Non-Executive Director of Genesis Ltd (ASX: GEN) (Director since June 2005), and is Non-Executive Chairman of Hatchtech Pty Ltd (Chairman since December 2007).

He was also previously the Chief Executive Officer of Celentis where he managed the commercialisation of intellectual property from AgResearch in New Zealand with 650 scientists and \$130m revenues. During this time he formed and governed a number of successful biotechnology companies that employed over 100 people with profitable revenues in excess of \$30m.

Dr Washer also sits on the Senate at Murdoch University as a Senator and is on the Federal Government Advisory Panel for Industrial Biotechnology.

##### *Other Listed Public Company Directorships in the last 3 years:*

None

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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**George Cameron-Dow Master of Management (cum laude) Wits, SEP Stanford (USA), FAICD, FAIM  
Executive Director**

**Appointed: 29 October 2007**

Mr Cameron-Dow has held several executive and non-executive, listed and unlisted company directorships in a career spanning 25 years across a variety of industries.

He is an Executive Director of independent boutique investment management company St George Capital Pty Ltd and a Non-Executive Director of Enerex Pty Ltd. Mr Cameron-Dow was previously a Director of corporate advisory and investment firm Churchill Capital.

*Other Listed Public Company Directorships in the last 3 years:*  
Director of Acuron Limited (February 2004 – September 2005).

**Ian Griffiths Ph.D, BSc in Polymer Science (UMIST, UK), Dip Business Administration  
Non-Executive Director of Xceed Capital Limited and Chief Executive Officer of PolyNovo  
Biomaterials Limited**

**Appointed: 13 April 2004**

Dr Ian Griffiths has a degree in polymer chemistry and a Ph.D in polyurethane physics from the University of Manchester (UK). Dr Griffiths was a founding member of In-Vibo, a biomaterials subsidiary business of Victrex International Ltd.

Following this, he joined AorTech International and worked within its cardiovascular division, before being seconded to assist in the running and development of a newly acquired technology start-up business in Melbourne Australia, AorTech Biomaterials Pty Ltd ('AorTech Biomaterials').

As Business Unit Director at AorTech Biomaterials, Dr Griffiths managed the establishment of manufacturing facilities, technology transfer from CSIRO and eventually took over business development activities. Dr Griffiths worked with the group CEO to conclude a series of transactions with AorTech Biomaterials' technology (Elast-Eon) including those with St Jude Medical (pacemaker leads), Edwards Life Science (heart valves) and Abbott Laboratories (stent coatings).

*Other Listed Public Company Directorships in the last 3 years:*  
None

**Peter Francis B.Juris, LLB**

**Non-Executive Director**

**Appointed: 13 April 2004**

Mr Francis has been a partner of Francis Abourizk Lightowlers, a firm of commercial and technology lawyers, since 1993. He is a legal specialist in the areas of intellectual property and licensing and provides legal advice to a large number of government-funded research bodies and numerous Cooperative Research Centres. Mr Francis was previously Legal Manager at Sirotech Limited, CSIRO's commercialisation arm.

Mr Francis is also Non-Executive Chairman of Benitec Limited (Director since February 2006).

Mr Francis is Chairman of the Audit and Risk Committee and a member of the Remuneration Committee.

*Other Listed Public Company Directorships in the last 3 years:*  
None

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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**Mr Tony Adcock MBA, BSc (Econ) Hons, FAICD, F.Fin**  
**Non-Executive Director**  
**Appointed: 29 October 2007**

Mr Adcock has had extensive international experience leading teams involved in multi-million dollar, complex transformation projects.

He is Founding Director of Red Pill Performance Consultants Pty Ltd which provides executive coaching, high performing teams and strategic management consulting services to industry. Prior to founding Red Pill, he was a Partner in PricewaterhouseCoopers Consulting and IBM Business Consulting Services running a business across Asia Pacific. Mr Adcock also has a capital markets and investment background.

Mr Adcock is also a Director of SIRCA, the Asia Pacific Capital Markets Research body and Chairman of Nubax International Ltd.

Mr Adcock is a member of the Audit and Risk Committee and the Remuneration Committee.

*Other Listed Public Company Directorships in the last 3 years:*  
None

### **Company Secretary**

**Adela Richards CA, BCom**  
**Appointed: 3 December 2007**

Ms Richards is a Chartered Accountant and has a Bachelor of Commerce degree from the University of Western Australia, with majors in accounting and corporate finance. She is also currently the Group Accountant at St George Capital Pty Ltd. Prior to joining St George Capital, she was the Finance Manager of investment and advisory firm Churchill Capital where she was involved in providing accounting and company secretarial services to public and private companies. She was also involved in various corporate advisory projects including capital raisings.

Prior to that, Ms Richards worked for a medium sized Chartered Accountancy firm providing business advisory and taxation services to private clients.

**David Kenley B.Ec, MEI, MAICD**  
**Managing Director**

Mr Kenley acted as Managing Director from the 8<sup>th</sup> August 2005 until his resignation on the 14<sup>th</sup> March 2008.

**Mr Stephen Belben CA, BAcc, BCom (Hons) University of Cape Town**  
**Alternate Director for Mr Cameron-Dow**

Mr Belben acted as an Alternate Director for Mr Cameron-Dow from the 16<sup>th</sup> May 2008 until the 27<sup>th</sup> August 2008.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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### 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 Xceed were:

Directors	Ordinary Shares in Xceed	Options in Xceed	Options in PolyNovo
P. O'Connor	11,314,683	1,966,085	-
S. Washer	-	-	-
G. Cameron-Dow	67,788	11,779	-
I. Griffiths	34,284	5,714	350,000
P. Francis	898,199	149,699	-
T. Adcock	150,000	-	-

Earnings Per Share	Cents
2008 Basic and Diluted loss per share in cents	(1.74)
2007 Basic and Diluted loss per share in cents	(2.19)

### Dividends

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

### Corporate Information

Xceed is a company limited by shares that is incorporated in Australia.

Xceed has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, Boron Molecular Pty Limited ("Boron Molecular") and PolyNovo Biomaterials Limited ("PolyNovo").

### Nature of Operations and Principal Activities

The major activities of the group are:

- The development and commercialisation of PolyNovo's novel biodegradable polymers;
- Manufacture, marketing and sale of Boron Molecular's range of organo-boron compounds; and
- Identifying additional investment opportunities.

PolyNovo's research is focused on the development of a new generation of biodegradable polymers. There is significant need for new types of biodegradable polymers with improved properties. This technology has application across many fields and PolyNovo is aiming to develop new generation treatments in various spheres of medical devices.

There were no changes in the state of the consolidated entity's affairs during the year.



# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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### Review and Results of Operations

#### Group Overview

Highlights of the 2008 financial year for the Xceed group were as follows:

- PolyNovo signed a third global partnering agreement with Smith & Nephew plc (NYSE: SNN; LSE: SN) for the development, supply and commercialisation of NovoSorb™ in the two distinct orthopaedics fields of Fracture Fixation and Bone Void Fillers;
- PolyNovo completed a pre-clinical trial with its Bioresorbable Temporising Matrix and began preparations for a human clinical trial of its EASE product; and
- Boron Molecular grew sales by 18% for the year and continued to enhance profitability.

A detailed review of each company's performance is set out in the sections below.

#### Operating Results for the Year

The results of the consolidated entity for the year was a loss of \$1,737,400 (2007: Loss \$1,971,000).

PolyNovo increased its loss by \$497,000 as compared to 2007, primarily as a result of decreased interest and grant revenue and the costs incurred in preparation for the demerger and IPO of PolyNovo which was discontinued in May 2008.

The combined performance of Boron Molecular and Xceed improved by approximately \$553,500 in the 2008 year as compared to 2007. This resulted in the consolidated entity generating a lower loss for the 2008 year as compared to the 2007 year.

The net cash used in operating activities for the year was \$2,362,000 (2007: \$2,609,000) in line with the group's expectations.

#### PolyNovo Biomaterials Limited

##### Company Overview

PolyNovo is a company commercialising its novel proprietary biodegradable polymer technology (NovoSorb™) in strategic medical device markets. PolyNovo has a portfolio of opportunities with a clear pathway to market with two complementary commercialisation routes: Partner device developments and Polynovo device developments. PolyNovo has licenses with three of the world's leading medical device companies and has two joint ventures developing next generation medical devices. The portfolio has been designed to maximise future revenues and minimise overall risk and timeframes to market.

##### Background

PolyNovo's technology, titled NovoSorb™, is based on novel biodegradable polymer technology that was developed within CSIRO's Division of Molecular and Health Technologies. The intellectual property surrounding this technology was fully assigned to PolyNovo in early 2006. Your board believes this platform technology has significant potential for application into a wide range of next generation medical devices.

NovoSorb™ can be tailored to large markets with potential applications in the areas of stents, orthopaedics, drug delivery, wound care, cosmetic surgery, tissue engineering, nerve regeneration and cartilage repair.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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### Key Achievements

During the year PolyNovo made significant progress commercialising NovoSorb™.

In February 2008 PolyNovo signed an exclusive partnering and licensing agreement with Smith & Nephew plc ("Smith & Nephew") for the development, supply and commercialisation of PolyNovo's NovoSorb™ in two distinct orthopaedic fields:

1. Fracture Fixations; and
2. Bone Void Fillers.

The estimated market for the first applications currently being developed in these fields of use is estimated to be US\$150 million per annum however PolyNovo believes that the advantages of NovoSorb™ have the potential to significantly grow this market.

The key commercial terms of the transaction between PolyNovo and Smith & Nephew are as follows:

1. Milestone payments will be made by Smith & Nephew on the signing of the agreement and upon achievement of certain development and regulatory events;
2. A royalty will be paid on worldwide sales of future licensed products brought to market by Smith & Nephew;
3. It is intended that PolyNovo will supply Smith & Nephew with NovoSorb™ raw materials on a commercial basis once products have entered the market.

Other highlights included:

- PolyNovo entered into a Joint Venture agreement (titled NovoCosmetica) on the 23<sup>rd</sup> July 2007 with the Principals of Cosmetic Surgery Associates, Dr Tim Edwards and Dr Tony Moore, to develop a range of innovative dermal filler and cosmetic surgery products using NovoSorb™;
- PolyNovo's continued progress with Medtronic Inc. in progressing its biodegradable stent program;
- PolyNovo's continued progress with Biomet, Inc. in developing NovoSorb™ in the two orthopedic fields of cartilage repair applications and cranial and facial bone repair applications;
- Significant progress was also made by PolyNovo in the wounds management joint venture, (NovoSkin) with Dr John Greenwood AM of Royal Adelaide Hospital. NovoSkin is in the process of developing two wound products, and in 2008 NovoSkin completed first-round preclinical studies in sheep that showed product efficacy in wound models using PolyNovo's Bioresorbable Temporarily Matrix ("BTM"). NovoSkin will build on the learning from this study to further refine the BTM product and conduct animal trials that if successful will lead to human trials in 2009.

### Financial Results

PolyNovo's financial results for the year are summarised as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Revenue & Income	426	504
Total Expenditure	(3,102)	(2,683)
Operating Loss for the year	(2,676)	(2,179)

The level of expenditure was broadly in line with the overall budgets set for FY2008.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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### Boron Molecular Pty Limited

#### Background

Boron Molecular is a Melbourne-based fine chemical company which has its business based on an exclusive right to globally exploit unique organo-boron technology assigned from CSIRO. Many of Boron Molecular's customers are leading international pharmaceutical and biotechnology companies which purchase the company's compounds to enhance their drug-development programs.

#### Key Achievements

Boron Molecular has achieved the following key outcomes during the year, which will provide a strong platform for further growth:

- Increased sales by 18% during the 2007/8 financial year compared with the previous year. (Cumulatively since 30 June 2005 sales have increased by more than 150%);
- Further extended its product list to more than 700 compounds;
- Focused on winning multi-kilogram orders;
- Invested in a 630L reactor (expected to be on-line in November 2008) to significantly increase its manufacturing capacity in order to meet customer demands for larger-scale custom orders;
- Continued to operate profitably after providing \$83,500 in inter-company charges paid to Xceed.

#### Financial Results

Boron Molecular's financial results for the year are summarised as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Sales Revenue	4,285	3,623
Total Revenue	4,438	3,710
Operating Expenses	(3,501)	(3,132)
Adjusted EBITDA Profit	937	578
Inter-company charges / reimbursement of management costs	(83)	(289)
Depreciation	(178)	(231)
Operating Profit for the year	676	58

Approximately 95% of Boron Molecular's sales are denominated in US dollars, whilst approximately 85% of costs are denominated in the unit's functional currency, Australian dollars. As a result, Boron Molecular's overall financial performance and future financial performance will be affected by movements in the Australian dollar against the US dollar.

#### Inherent Risks of Investment in Biotechnology Companies

Some of the risks inherent in the development of a biotechnology product to a marketable stage include the uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, obtaining the necessary regulatory authority approvals and difficulties caused by rapid advancements in technology. Also a particular product may fail the clinical-development process through lack of efficacy or safety.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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Companies such as Xceed are dependent on the success of their research projects and technology investments. Investment in research projects and technology-related companies cannot be assessed on the same fundamentals as trading and manufacturing enterprises. Thus investment in these areas must be regarded as speculative.

This report may contain forward-looking statements regarding the potential of the company's projects and interests and the development and therapeutic potential of the company's research and development. Any statement describing a goal, expectation, intention or belief of the company is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those inherent in the process of discovering, developing and commercialising products that are safe and effective for use as human therapeutics and medical devices and the financing of such activities.

There is no guarantee that the company's research and development projects and interests (where applicable) will receive regulatory approvals or prove to be commercially successful in the future. Actual results of further research could differ from those projected or detailed in this report. As a result, you are cautioned not to rely on forward-looking statements. Consideration should be given to these and other risks concerning the company's research and development programs referred to in this report for the period ended 30 June 2008.

### **Significant Events after Balance Date**

#### **1. Further investment into PolyNovo**

On the 8<sup>th</sup> July 2008, Xceed signed a subscription agreement with PolyNovo enabling a further investment in the company up to \$5 million, which if fully subscribed would take Xceed's shareholding in PolyNovo from 64% up to a maximum of 76%.

The material terms of the subscription agreement are summarised as follows:

1. The three current directors of PolyNovo will remain on the Board being Dr Ian Griffiths (Chief Executive Officer), Mr Bruce Rathie (Chairman) and Mr Peter Francis (Non-Executive Director). In addition, Xceed will appoint two Non-Executive Directors, being Mr George Cameron-Dow and Dr Stewart Washer.
2. A condition precedent to the new investment in PolyNovo is that the Shareholders Agreement in place between the two current shareholders of PolyNovo, being the CSIRO and Xceed, will be terminated and replaced. Further, the CSIRO must also provide a written waiver to Xceed of any rights it holds that would prevent or qualify the issue of shares and options under the subscription agreement.
3. Xceed can initially subscribe for 3,458,333 new shares in PolyNovo for a total of \$2.5 million with settlement to occur within 75 days of the conditions precedent outlined above in 2 being satisfied. Xceed has the right to procure third party subscribers to take up the subscription of PolyNovo shares and options.
4. If a legally binding term sheet is entered into with Metabolic Pharmaceuticals Ltd ("MBP") prior to the 18<sup>th</sup> July 2008 and the transaction described in the MBP term sheet is completed within 120 days of its signing and there is no occurrence of a "Failure Event" (as defined in the MBP term sheet) Xceed will have no further rights or obligations to subscribe for shares under this subscription agreement. If there is a "Failure Event" (as defined in the MBP term sheet), then Xceed will comply with the terms of this subscription agreement.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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5. Subject to settlement occurring in 3, Xceed will also be granted options in PolyNovo as follows:
  - 2,500,000 unlisted options with an exercise price of \$1.00. These options may be exercised at any time or times in one or more tranches from the date of issue until 18 months from that date;
  - 2,083,333 unlisted options with an exercise price of \$1.20. These options may be exercised at any time or times in one or more tranches from the date of issue until 30 months from that date.
6. Xceed will also have the right to subscribe for an additional 3,458,333 new shares in PolyNovo for a total of \$2.5m exercisable within 60 days of the initial \$2.5m investment being made and will be granted a second tranche of options on the same number and terms as the initial tranche of options outlined in 5 above.

### 2. Sale of PolyNovo to Metabolic

On the 17<sup>th</sup> July 2008, Xceed signed a binding term sheet to sell its 64% shareholding in PolyNovo to Metabolic Pharmaceuticals Limited (ASX: MBP) ("Metabolic").

The material terms of the binding term sheet signed with Metabolic are as follows:

1. Subject to satisfaction of relevant conditions precedent, Metabolic will acquire 100% of the issued share capital of PolyNovo from its current shareholders, Xceed and CSIRO, in exchange for new issued shares in Metabolic.

The new shares issued by Metabolic to Xceed and CSIRO will be equal to 45% of the issued shares in Metabolic. The current issued capital including performance rights of Metabolic is around 302 million shares. After the completion of the transaction, Metabolic will issue approximately 158 million shares to Xceed and 89 million shares to CSIRO, with the new issued capital of Metabolic being approximately 549 million shares. Metabolic has around \$15 million in cash, equivalent to \$0.05 cents per share.

2. Xceed will, subject to receiving a favourable class ruling from the Australian Taxation Office, distribute in-specie the Metabolic shares it receives by way of a capital reduction to its shareholders. Xceed has agreed that, by no later than 12 months after the completion of the transaction, or 6 months after the release from any escrow conditions (whichever is the later to occur) it will own not more than 10% of the issued capital of Metabolic. Xceed has also entered into an agreement which will restrict its voting power, except in certain customary circumstances, whilst it holds in excess of 10% of Metabolic.
3. Metabolic has agreed to advance PolyNovo up to \$2 million to enable the company to move forward with its business development while the transaction is completed, which is estimated to take 3 months. An initial \$1 million will be paid upon the signing of the binding term sheet, and further payments up to an aggregate of \$1 million may be advanced following satisfactory due diligence and satisfaction of relevant drawdown conditions.

In the event that the transaction does not complete, Metabolic may require repayment of the loan, or convert the loan into equity in PolyNovo.

4. Upon completion of the transaction, the Chief Executive Officer of PolyNovo, Dr Ian Griffiths, will be appointed Chief Executive Officer and Managing Director of Metabolic, and he will resign as a Director of Xceed.
5. Dr Stewart Washer will be appointed to the Board of Metabolic as Xceed's representative, and will remain on the Metabolic Board so long as Xceed holds more than 10% of the shares in Metabolic.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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6. It is intended that upon completion of the transaction, Metabolic will change its name to PolyNovo Biomaterials Limited, and PolyNovo, as a subsidiary, will also change its name. The staff of both companies will be retained to ensure the smooth transition to the company's future direction which will be to focus on the implementation of the PolyNovo business plan.

### **Indemnification and Insurance of Directors and Officers**

Xceed has agreed to indemnify all directors and executive officers of the company, against liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors of Xceed, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that Xceed will meet the full amount of any such liabilities, including costs and expenses.

During the financial year, the company paid premiums in respect of a contract insuring all the directors of Xceed against costs incurred in defending proceedings for conduct involving:

- (a) Wilful breach of duty; or
- (b) A contravention of Section 182 or 183 of the Corporations Act, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance premiums paid for the financial period was \$32,450. This amount is included as part of the directors' remuneration.

### **Environmental Regulation**

The directors are mindful of the regulatory regime in relation to the impact of the organisation's activities on the environment.

There have been no known breaches of any environmental regulation by the consolidated entity during the financial period.

### **Likely Developments and Expected Results**

In the opinion of Xceed's directors, it would prejudice the interests of the company to provide additional information, except as reported in the annual report, relating to likely developments in the operations of the company.

### **Share Options**

#### Unissued Shares

As at the date of this report, there were 1,000,000 (2007: 8,765,000) unissued ordinary Xceed Capital Limited shares under employee options (1,000,000 at 30 June 2008) and 12,706,733 listed options (2007: 12,706,733) (12,706,733 at 30 June 2008). Refer to notes 14 and 19 of the financial statements for further details of the options outstanding.

Option holders do not have the right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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### Remuneration Report (Audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Company and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the Company and the Group.

Details of key management personnel (including the five highest executives of the Company and the Group):

#### (i) Directors

P. O'Connor	Non-Executive Chairman
S. Washer	Executive Director – appointed 7 May 2008
G. Cameron-Dow	Executive Director – appointed 29 October 2007
I. Griffiths	Non-Executive Director and Chief Executive Officer of PolyNovo Biomaterials Ltd
P. Francis	Non-Executive Director
T. Adcock	Non-Executive Director – appointed 29 October 2007
D. Kenley	Managing Director and Chief Executive Officer – resigned 14 March 2008
S. Belben	Alternate Director – appointed 16 <sup>th</sup> May 2008 and resigned 27 <sup>th</sup> August 2008

#### (ii) Executives

D. Williamson	Chief Financial Officer and Company Secretary – resigned 30 November 2007
S. Courtney	Managing Director, Boron Molecular Pty Ltd
T. Gunatillake	Chief Scientific Officer, PolyNovo Biomaterials Ltd
L. Fossaert	Chief Operations Officer, PolyNovo Biomaterials Ltd

### Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, Xceed embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Have a portion of executive remuneration 'at risk' dependent upon meeting pre-determined performance benchmarks; and
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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### Remuneration Report (Audited) (continued)

#### Remuneration Committee

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and executives.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality director and executive team.

#### Remuneration Structure

In accordance with best practice, the structure of non-executive director and executive remuneration is separate and distinct.

#### Non-Executive Director Remuneration

##### Objective

The Board aims to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

##### Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.

The latest determination (May, 2004) was an aggregate remuneration of \$150,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually.

Each director receives a fee for being a director of Xceed.

Non-executive directors have long been encouraged by the Board to hold shares in the Company. Xceed considers it appropriate for directors to have a stake in the Company. Subject to shareholder approval, non-executive directors can be provided incentives through the issue of options in the Company.

The remuneration of non-executive directors for the period ending 30 June 2008 is detailed in Table 1.

During the year Xceed made payments to director related entities for services rendered on behalf of the Company. Refer to note 27.

As non-executive directors are not expected to be involved in the performance of the Company to the same degree as executive directors it is not considered appropriate for their remuneration to be dependent on the satisfaction of performance criteria.



# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

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### Remuneration Report (Audited) (continued)

#### Senior Management and Executive Director Remuneration

##### Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward executives;
- Align the interests of executives with those of shareholders;
- Link reward with strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

##### Principles of Compensation

Compensation levels for employees of the Company are competitively set to attract and retain appropriately qualified and experienced senior executives. As required, the Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Company's remuneration strategy.

##### Structure

Remuneration consists of the following key elements:

- Fixed Remuneration (base salary, superannuation and non-monetary benefits);
- Variable Remuneration
  - Short-term incentives
  - Long-term incentives

The Remuneration Committee establishes the proportion of fixed and variable remuneration for each senior manager.

##### *Fixed Remuneration*

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. The Remuneration Committee reviews fixed remuneration annually by reviewing the overall performance of the individual and of the Company.

Senior managers may be given the flexibility to receive their remuneration in a variety of forms including cash and fringe benefits (such as motor vehicles and expense payment plans). It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

##### *Variable Remuneration – short term incentive*

The objective of short term incentives is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets.

From time to time cash bonuses (short term incentives) are paid where an executive has met a short term objective of the Company. Such bonuses are paid when specific criteria are met which are set by the Remuneration Committee or when an executive has made contributions that are significant and beyond the normal expectations of their role.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

### Remuneration Report (Audited) (continued)

#### *Variable Remuneration – long term incentive*

Long term incentives are delivered in the form of share options. The strike price of options are determined so as to ensure that the options only have value if there is an increase in shareholder wealth over time. For each option granted, specific hurdles are provided which must be met before the options are vested.

There were no changes during the year to share based payments made in previous financial periods.

#### **Employment Agreements**

Employment agreements are entered into with the executive directors and all other executives. None of the agreements are fixed term contracts.

Dr Griffiths' employment agreement provides for a termination / notice period of not more than 6 months (depending on the years of service prior to termination) whilst Dr Courtney has a three month notice period.

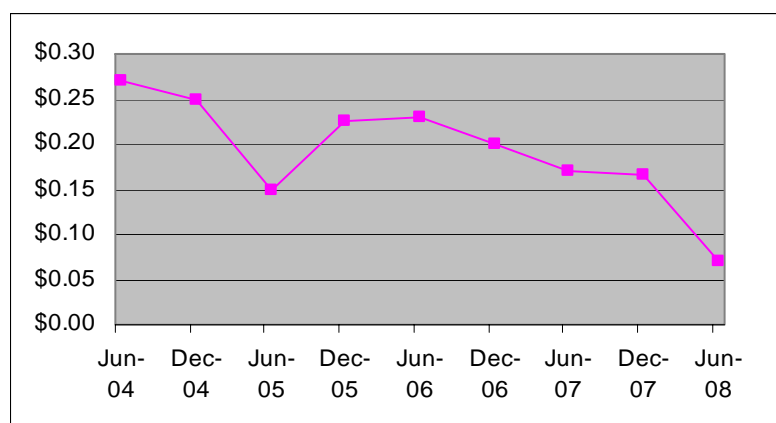
#### **Relationship of Rewards to Performance**

The value of share options are a significant portion of executive's salary package. The ultimate value to the executives of the options depends on an increase in the share price of Xceed Capital Limited. The change in the share price is the key performance criteria for the long term incentive as the realised value arising from options issued is dependent upon an increase in the share price to above the exercise price of the options.

The Board has not developed a policy in relation to executives limiting their exposure to risk in relation to the options issued to them as remuneration however this will be reviewed by the Board as required.

#### **Group Performance**

As the Group continues in its research and development stage and has not been generating earnings, executive reward over the past three years has been linked to achievement of specified milestones and share price hurdles. The graph below shows the performance of the Group share price since listing in May 2004:



# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

### Remuneration Report (Audited) (continued)

#### Remuneration of key management personnel and the five highest paid executives of the Company and the Group

**Table 1: Remuneration for the year ended 30 June 2008**

	Short Term Benefit			Post employment		Equity	Total	Perform- ance Related %
	Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Super- annuation \$	Termination payments \$	Options \$		
<b>Non-executive directors</b>								
P. O'Connor – Chairman	26,174	-	6,332	-	-	-	32,506	-
P. Francis <sup>1</sup>	22,841	-	6,332	-	-	7,068	36,241	-
T. Adcock	12,840	-	2,111	-	-	-	14,951	-
<b>Sub-total non-executive directors</b>	<b>61,855</b>	<b>-</b>	<b>14,775</b>	<b>-</b>	<b>-</b>	<b>7,068</b>	<b>83,698</b>	<b>-</b>
<b>Executive directors</b>								
S. Washer	2,464	-	528	-	-	-	2,992	-
G. Cameron-Dow	12,840	-	2,111	-	-	-	14,951	-
I. Griffiths <sup>2</sup>	243,173	30,000	6,332	21,886	-	10,073	311,464	10%
D. Kenley <sup>3</sup>	139,489	-	2,374	48,188	90,130	(30,412)	249,769	(12%)
S. Belben	-	-	-	-	-	-	-	-
<b>Other key management personnel</b>								
D. Williamson <sup>4</sup>	68,485	-	-	5,055	35,768	(4,981)	104,327	(5%)
S. Courtney <sup>5</sup>	167,674	41,160	3,166	15,091	-	-	227,091	18%
T. Gunatillake <sup>6</sup>	111,107	-	-	103,026	-	(17,860)	196,273	-
L. Fossaert <sup>7</sup>	117,648	17,087	3,925	10,648	-	-	149,308	11%
<b>Sub-total executive KMP</b>	<b>862,880</b>	<b>88,247</b>	<b>18,436</b>	<b>203,894</b>	<b>125,898</b>	<b>(43,180)</b>	<b>1,256,175</b>	
<b>Total</b>	<b>924,735</b>	<b>88,247</b>	<b>33,211</b>	<b>203,894</b>	<b>125,898</b>	<b>(36,112)</b>	<b>1,339,873</b>	

- Options issued to Mr Francis in December 2004 vested upon satisfaction of service period conditions.
- Dr Griffiths is a Non-Executive Director of Xceed, but is considered an Executive of the Group as he is the Chief Executive Officer of PolyNovo Biomaterials Ltd. Options in Xceed and PolyNovo vested to Dr Griffiths due to the achievement of service period and performance related conditions. The performance related conditions relate to the achievement of several strategic and business development goals within PolyNovo's business plan set by the Remuneration Committee. A cash bonus of \$30,000 was accrued at 30 June 2008 for Dr Griffiths in relation to the finalisation of the major partnering transaction with Smith & Nephew during the year however this bonus is still subject to approval by the Remuneration Committee.
- Mr Kenley resigned as Managing Director and Chief Executive Officer of Xceed Capital, effective 14 March 2008. 1,000,000 management options issued to him in August 2005 lapsed without vesting during 2008 as a performance hurdle set by the Remuneration Committee relating to the realisation of Xceed's investment in one of its subsidiaries was not achieved.
- Mr Williamson resigned as Chief Financial Officer and Company Secretary on the 30<sup>th</sup> November 2007. 400,000 employee options issued to him in June 2005 lapsed without vesting during 2008 as a performance hurdle set by the Remuneration Committee relating to the realisation of Xceed's investment in one of its subsidiaries was not achieved.
- Dr Courtney was paid cash bonuses on the 15<sup>th</sup> September 2007 and 15<sup>th</sup> March 2008 after meeting short term EBITDA objectives for Boron Molecular set by the Remuneration Committee. Dr Courtney received 100% of the bonus he was eligible to receive.
- Options issued to Dr Gunatillake in July 2004 lapsed during the year without vesting as service period conditions set by the Remuneration Committee were not met. Dr Gunatillake is engaged by PolyNovo under secondment from the CSIRO and the vesting of these options were conditional upon his leaving secondment and being directly employed by PolyNovo.
- Mr Fossaert was paid a cash bonus of \$4,587 on the 14<sup>th</sup> August 2007 as a reward for contributions he made during the year ended 30 June 2007 that were significant and beyond the normal expectations of his role. A bonus of \$12,500 has been accrued for his performance during the year ended 30 June 2008 however it is still subject to approval by the Remuneration Committee.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

### Remuneration Report (Audited) (continued)

#### Remuneration of key management personnel and the five highest paid executives of the Company and the Group (continued)

**Table 2: Remuneration for the year ended 30 June 2007**

	Short Term Benefit			Post employment		Equity		Perform- ance Related %
	Salary & Fees \$	Cash Bonus \$	Non Monetary Benefits \$	Super- annuation \$	Termination payments	Options \$	Total \$	
<b>Non-executive directors</b>								
P. O'Connor – Chairman	40,000	-	6,400	-	-	-	46,400	-
P. Francis <sup>1</sup>	30,000	-	19,200	-	-	7,067	56,267	-
<b>Sub-total non-executive directors</b>	<b>70,000</b>	<b>-</b>	<b>25,600</b>	<b>-</b>	<b>-</b>	<b>7,067</b>	<b>102,667</b>	<b>-</b>
<b>Executive directors</b>								
D. Kenley <sup>2</sup>	247,859	-	6,400	12,142	-	(21,882)	244,519	-
I. Griffiths <sup>3</sup>	250,566	130,000	12,800	22,270	-	76,570	492,206	26%
<b>Other key management personnel</b>								
D. Williamson <sup>4</sup>	175,219	-	-	12,132	-	(9,621)	177,730	-
J. Tsanakidis <sup>5</sup>	134,129	45,963	5,760	14,719	-	6,652	207,223	22%
S. Courtney <sup>5</sup>	96,942	37,122	640	8,725	-	2,976	146,405	25%
<b>Sub-total executive KMP</b>	<b>904,715</b>	<b>213,085</b>	<b>25,600</b>	<b>69,988</b>	<b>-</b>	<b>54,695</b>	<b>1,268,083</b>	
<b>Total</b>	<b>974,715</b>	<b>213,085</b>	<b>51,200</b>	<b>69,988</b>	<b>-</b>	<b>61,762</b>	<b>1,370,750</b>	

- Options issued to Mr Francis in December 2004 vested upon the satisfaction of service period conditions.
- Mr Kenley resigned as Managing Director and Chief Executive Officer of Xceed Capital, effective 14 March 2008. 1,000,000 management options issued to him in August 2005 lapsed without vesting during 2007 as a performance hurdle set by the Remuneration Committee relating to the realisation of Xceed's investment in one of its subsidiaries was not achieved.
- Dr Griffiths is a Non-Executive Director of Xceed, but is considered an Executive of the Group as he is the Chief Executive Officer of PolyNovo Biomaterials Ltd. Options in Xceed and PolyNovo vested to Dr Griffiths due to the achievement of service period and performance related conditions. The performance related conditions relate to the achievement of several strategic and business development goals within PolyNovo's business plan set by the Remuneration Committee. Dr Griffiths was rewarded with a cash bonus in 2007 after meeting a short term objective set by the Remuneration Committee of finalising a major partnering transaction and in recognition for his role in the formation of NovoCosmetica, the progress in NovoSkin and his management of the Medtronic relationship.
- Mr Williamson resigned as Chief Financial Officer and Company Secretary on the 30<sup>th</sup> November 2007. 400,000 employee options issued to him in June 2005 lapsed without vesting during 2007 as a performance hurdle set by the Remuneration Committee relating to the realisation of Xceed's investment in one of its subsidiaries was not achieved.
- Dr Tsanakidis resigned as Managing Director of Boron Molecular, effective 9 May 2007. Dr Courtney became Managing Director on Dr Tsanakidis' resignation. Dr Tsanakidis and Dr Courtney were paid cash bonuses after meeting short term EBITDA objectives for Boron Molecular set by the Remuneration Committee.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

### Remuneration Report (Audited) (continued)

#### Options in Xceed Capital Limited granted as part of remuneration for the year ended 30 June 2008

During the financial year no options or shares were granted as equity compensation to specified directors or executives (2007: Nil).

During the year the following options lapsed:

1. 1,515,000 options exercisable at \$0.20 per share and 400,000 options exercisable at \$0.50 per share issued under the ESOP;
2. 1,250,000 executive management options exercisable at \$0.35 per share;
3. 1,000,000 executive management options exercisable at \$0.50 per share;
4. 3,200,000 executive management options exercisable at \$0.20 per share; and
5. 400,000 agent options exercisable at \$0.20 per share lapsed.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

#### *Exercise of employee options*

During the year 500,000 employee options were exercised by a former director of the Company. Each option had an exercise price of \$0.20 and one fully paid ordinary share was issued for each option exercised. The options had a value of \$49,022 when they were originally granted. The volume weighted average price (VWAP) of Xceed shares on the date the options were exercised was \$0.214.

**Table 3: Options granted as part of remuneration**

	<i>Value of options granted during the year</i>	<i>Value of options exercised during the year</i>	<i>Value of Options Lapsed during the year</i>	<i>Number of Options lapsed during the year</i>
	\$	\$	\$	
<b>Directors</b>				
I. Griffiths	-	-	101,301	1,000,000
P. Francis	-	-	25,326	250,000
D. Kenley	-	-	43,005	1,000,000
<b>Executives</b>				
D. Williamson	-	-	33,414	800,000
S. Courtney	-	-	12,068	200,000

#### Options granted in PolyNovo Biomaterials Ltd for the year to directors and specified executives

No options were issued to directors and specified executives during the year (2007: Nil).

#### *Exercise of employee options*

No options have been exercised during the year. The options are issued over ordinary shares in PolyNovo Biomaterials Ltd.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

### Directors' Meetings

The number of directors' meetings and the number of meetings attended by each of the directors of the Company for the time the director held office during the financial year are:

Director	Directors Meetings	Meetings of Committees	
		Audit and Risk	Remuneration
<b>Number of Meetings Held</b>	<b>17</b>	<b>2</b>	<b>-</b>
<b>Number of Meetings Attended</b>			
Mr Patrick O'Connor	17	2	-
Dr Stewart Washer	3	-	-
Mr George Cameron-Dow	13	-	-
Dr Ian Griffiths	16	-	-
Mr Peter Francis	15	2	-
Mr Tony Adcock	13	-	-
Mr David Kenley	4	-	-
Mr Stephen Belben (alternate for Mr Cameron-Dow)	1	-	-

In addition, the Board of Directors approved a total of 6 circular resolutions during the year ended 30 June 2008. The Remuneration Committee dealt with remuneration matters by resolutions only during the year.

### Committee Membership

At the date of this report, the Company had an Audit and Risk Committee and a Remuneration Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

#### Audit and Risk

Mr Peter Francis – Chairman  
Mr Patrick O'Connor  
Mr Tony Adcock\*

#### Remuneration

Mr Patrick O'Connor – Chairman  
Mr Peter Francis  
Mr Tony Adcock\*

\* Mr Adcock was appointed to the Audit and Risk Committee and the Remuneration Committee on the 28<sup>th</sup> August 2008.

### Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

### Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability the directors of Xceed support and have adhered to the principles of corporate governance. The Company's corporate governance statements and policies are included on the company website.

# XCEED CAPITAL LIMITED

## DIRECTORS' REPORT

### Non Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Assurance services in relation to the proposed Initial Public Offering for PolyNovo Biomaterials Ltd	\$36,700
Income Tax services provided to PolyNovo Biomaterials Ltd	\$5,000
Total non-audit services	<u>\$41,700</u>

### Auditor Independence

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of the Company with an Independence Declaration in relation to the audit of the Financial Report. The directors received the following Independence Declaration for the year ended 30 June 2008:



### Auditor's Independence Declaration to the Directors of Xceed Capital Limited

In relation to our audit of the financial report of Xceed Capital Limited for the financial year ended 30 June 2008, 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

Don Bramley  
Partner  
28 August 2008

Signed in accordance with a resolution of the directors:

Mr Patrick O'Connor  
Chairman  
Dated: 28<sup>th</sup> August 2008

**XCEED CAPITAL LIMITED**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Revenue</b>	4(a)	4,806	3,907	129	354
Cost of Goods Sold	4(c)	<u>2,218</u>	<u>1,941</u>	<u>-</u>	<u>-</u>
<b>Gross Profit</b>		2,588	1,966	129	354
Other Income	4(b)	<u>104</u>	<u>335</u>	<u>-</u>	<u>-</u>
		2,692	2,301	129	354
Operating Lease Payments	4(d)	563	517	2	23
Employee Benefits Expense	4(e)	1,523	1,295	439	498
Research and Development Expenses	4(f)	1,294	1,630	-	-
Depreciation Expense	4(g)	106	137	2	17
Corporate Finance and Administration Expenses		1,391	1,062	391	452
Sales and Marketing Expense		518	417	-	-
Reversal of Provision for Impairment of Subsidiary	13	-	-	(2,235)	-
Provision for Impairment of Subsidiary	13	<u>-</u>	<u>-</u>	<u>2,233</u>	<u>-</u>
<b>Loss before income tax</b>		<b>(2,703)</b>	<b>(2,757)</b>	<b>(703)</b>	<b>(636)</b>
Income Tax Expense	5	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Loss for the financial year</b>		<b><u>(2,703)</u></b>	<b><u>(2,757)</u></b>	<b><u>(703)</u></b>	<b><u>(636)</u></b>
<b>Attributable to:</b>					
Minority interest	21	(966)	(786)	-	-
Members of Xceed Capital Limited	20	<u>(1,737)</u>	<u>(1,971)</u>	<u>(703)</u>	<u>(636)</u>
<b>Basic and diluted loss per share (in cents)</b>	6	<b><u>(1.74)</u></b>	<b><u>(2.19)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

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



**XCEED CAPITAL LIMITED**  
**BALANCE SHEET**  
**AS AT 30 JUNE 2008**

	Note	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	7	3,040	5,478	161	834
Trade and other receivables	8	568	680	40	4
Inventories	9	547	337	-	-
Prepayments		193	77	12	38
Financial instruments	18	185	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<u>4,533</u>	<u>6,572</u>	<u>213</u>	<u>876</u>
<b>NON CURRENT ASSETS</b>					
Property, plant and equipment	10	780	950	-	6
Intangible assets	11	5,100	5,100	-	-
Other financial assets	13	-	-	10,072	10,070
<b>TOTAL NON CURRENT ASSETS</b>		<u>5,880</u>	<u>6,050</u>	<u>10,072</u>	<u>10,076</u>
<b>TOTAL ASSETS</b>		<u><b>10,413</b></u>	<u><b>12,622</b></u>	<u><b>10,285</b></u>	<u><b>10,952</b></u>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	15	968	832	73	164
Financial instruments	18	186	-	-	-
Provisions	16	163	240	-	30
<b>TOTAL CURRENT LIABILITIES</b>		<u>1,317</u>	<u>1,072</u>	<u>73</u>	<u>194</u>
<b>NON CURRENT LIABILITIES</b>					
Provisions	17	100	-	-	-
Deferred tax liability	5	1,530	1,530	-	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<u>1,630</u>	<u>1,530</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u><b>2,947</b></u>	<u><b>2,602</b></u>	<u><b>73</b></u>	<u><b>194</b></u>
<b>NET ASSETS</b>		<u><b>7,466</b></u>	<u><b>10,020</b></u>	<u><b>10,212</b></u>	<u><b>10,758</b></u>
<b>EQUITY</b>					
Equity attributable to members of the parent:					
Contributed equity	19	17,888	17,716	17,888	17,716
Reserves	20	38	39	481	496
Accumulated losses	20	(12,303)	(10,546)	(8,157)	(7,454)
<b>Parent interests</b>		<u>5,623</u>	<u>7,209</u>	<u>10,212</u>	<u>10,758</u>
<b>Minority interests</b>	21	<u>1,843</u>	<u>2,811</u>	<u>-</u>	<u>-</u>
<b>TOTAL EQUITY</b>		<u><b>7,466</b></u>	<u><b>10,020</b></u>	<u><b>10,212</b></u>	<u><b>10,758</b></u>

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

**XCEED CAPITAL LIMITED**  
**STATEMENT OF CASHFLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Consolidated		Parent	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		4,873	3,624	180	289
Receipts of grants in the course of operations		167	262	-	-
Payments to suppliers and employees		(7,402)	(6,495)	(1,064)	(899)
<b>Net cash flows from operating activities</b>	7	<u>(2,362)</u>	<u>(2,609)</u>	<u>(884)</u>	<u>(610)</u>
<b>Cash flows from investing activities</b>					
Interest received		271	282	35	28
Purchase of property, plant and equipment	10	(164)	(170)	-	(4)
Proceeds from sale of plant and equipment		4	12	4	-
Acquisition of investment in PolyNovo Biomaterials Ltd		-	-	-	(2,000)
Loans repaid by subsidiaries		-	-	-	91
<b>Net cash flows from investing activities</b>		<u>111</u>	<u>124</u>	<u>39</u>	<u>(1,885)</u>
<b>Cash flows from financing activities</b>					
Proceeds from capital raising	17	172	2,786	172	2,786
Cancelled capital raising costs		(359)	-	-	-
<b>Net cash flows from financing activities</b>		<u>(187)</u>	<u>2,786</u>	<u>172</u>	<u>2,786</u>
Net increase/(decrease) in cash and cash equivalents		(2,438)	301	(673)	291
Cash and cash equivalents at the beginning of the year		5,478	5,177	834	543
<b>Cash and cash equivalents at the end of the year</b>	7	<u><b>3,040</b></u>	<u><b>5,478</b></u>	<u><b>161</b></u>	<u><b>834</b></u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

**XCEED CAPITAL LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2008**

CONSOLIDATED	<i>Attributable to equity holders of the parent</i>			<i>Minority interest</i>	<i>Total equity</i>	
	<i>Issued capital</i> \$'000	<i>Retained earnings</i> \$'000	<i>Other Reserves</i> \$'000	<i>Total</i> \$'000	\$'000	
<b>At 1 July 2006</b>	14,930	(8,380)	145	6,695	3,150	9,845
Issue of shares	2,786	-	-	2,786	-	2,786
Loss for the year	-	(1,971)	-	(1,971)	(786)	(2,757)
Acquisition of minority interest in subsidiary	-	(195)	(212)	(407)	407	-
Share-based payment	-	-	106	106	40	146
<b>At 30 June 2007</b>	<b>17,716</b>	<b>(10,546)</b>	<b>39</b>	<b>7,209</b>	<b>2,811</b>	<b>10,020</b>
<b>At 1 July 2007</b>	17,716	(10,546)	39	7,209	2,811	10,020
Issue of shares	172	-	-	172	-	172
Loss for the year	-	(1,737)	-	(1,737)	(966)	(2,703)
Share-based payment	-	(20)	(1)	(21)	(2)	(23)
<b>At 30 June 2008</b>	<b>17,888</b>	<b>(12,303)</b>	<b>38</b>	<b>5,623</b>	<b>1,843</b>	<b>7,466</b>

PARENT	<i>Issued capital</i> \$'000	<i>Retained earnings</i> \$'000	<i>Other Reserves</i> \$'000	<i>Total</i> \$'000
<b>At 1 July 2006</b>	14,930	(6,818)	465	8,577
Issue of shares	2,786	-	-	2,786
Loss for the year	-	(636)	-	(636)
Share-based payment	-	-	31	31
<b>At 30 June 2007</b>	<b>17,716</b>	<b>(7,454)</b>	<b>496</b>	<b>10,758</b>
<b>At 1 July 2007</b>	17,716	(7,454)	496	10,758
Issue of shares	172	-	-	172
Loss for the year	-	(703)	-	(703)
Share-based payment	-	-	(15)	(15)
<b>At 30 June 2008</b>	<b>17,888</b>	<b>(8,157)</b>	<b>481</b>	<b>10,212</b>

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

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**1. CORPORATE INFORMATION**

The financial report of Xceed Capital Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on the 28th August 2008.

Xceed Capital Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis and except where stated, does not take into account changing money values.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000), under the option available to the company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

**(b) Statement of Compliance**

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Company's financial report	Application date for Group*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single	1 July 2009

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

Reference	Title	Summary	Application date of standard*	Impact on Company's financial report	Application date for Group*
		requirements for dividends and changes to the titles of the financial statements.		statement of comprehensive income or two separate statements.	
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
AASB 2008-7	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments.	1 July 2009

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

Reference	Title	Summary	Application date of standard*	Impact on Company's financial report	Application date for Group*
		<p>separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.</p>		In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	
AASB 2008-5 and AASB 2008-6	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

\* designates the beginning of the applicable annual reporting period unless otherwise stated

*Adoption of New Accounting Standards*

Since 1 July 2007 the Consolidated Entity and the Company have adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Company or the Consolidated Entity.

- AASB 7 *Financial Instruments: Disclosures*
- AASB 2005-10 *Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038)*
- AASB Interpretation 11 *Group and Treasury Share Transactions*
- AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038)*
- AASB 2007-7 *Amendments to Australian Accounting Standards (AASB 1, 2, 4, 5, 107 & 128).*

**(c) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of Xceed Capital Limited and its subsidiaries as at 30 June 2008 each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Basis of Consolidation (continued)**

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the financial statements, all intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

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 loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Xceed Capital Limited has control.

Minority interests represent the interests in PolyNovo Biomaterials Limited, not held by the Group. There was no change in the interest held by the Group in PolyNovo Biomaterials Limited during the year.

Unless otherwise stated, the investments in controlled entities are carried at cost in the parent company's separate financial statements. Minority interests not held by the Group are allocated their share of net profit after tax in the Income Statement and are presented within equity in the consolidated Balance Sheet, separately from parent shareholders' equity.

**(d) Segment Reporting – refer note 3**

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments.

A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

**(e) Significant Accounting Estimates and Assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*Impairment of intangibles with indefinite useful lives.*

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 12.

*Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes pricing model taking into account the terms and conditions upon which the instruments were granted. Refer to Note 14 for more details regarding the valuation of share-based payments.

**(f) Foreign Currency Translation**

Both the functional and presentation currency of Xceed Capital Limited and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded 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 differences in the consolidated financial report are taken to the Income Statement.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Property, Plant and Equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	<b>2008</b>	<b>2007</b>
Plant & equipment	3-13.33 years	3-13.33 years
Leasehold improvements	4 years	4 years

*Impairment*

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

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. The assets residual value, their useful lives and the depreciation rates are reviewed on an annual basis, and adjusted, if appropriate. 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 amount unless the assets value in use can be estimated to be close to its fair value.

The recoverable amount of plant and equipment is the greater of 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. Any impairment losses are recognised in the Income Statement in the costs of sales line.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the other income / expenses line in the period the item is derecognised.

**(h) Intangible Assets**

*Patents & Licences*

The CSIRO patents transferred to PolyNovo as consideration for CSIRO's initial interest in PolyNovo, are recognised at cost and are carried forward as assets on the expectation that they will lead to commercialisation. The carrying amount of intellectual property is reviewed annually for impairment and more frequently when an indication of impairment exists. The intellectual property which has been transferred to PolyNovo has an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

External costs incurred in filing, defending and protecting patent applications, for which no future benefit is reasonably assured, are expensed as patent fees, as incurred. Where it is considered future benefit is reasonably assured, patent costs are carried at cost and amortised on a straight-line basis over the lesser of the life of the patent or the CSIRO licence assigned to Boron Molecular.

At each reporting date, the directors consider whether the patents should be subject to a provision relating to their impairment.

Costs relating to research activities are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. To date all development costs have been directly expensed as incurred, as the recoverability cannot be regarded as assured.



**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Intangible Assets (continued)**

The carrying amount of patents and licences is reviewed to determine whether its value is in excess of the recoverable amount at reporting date. If the carrying amount exceeds its recoverable amount, the amount is written down to the lower amount.

The write down of intangibles is expensed in the reporting period in which it occurs. In assessing recoverable amounts, the relevant cash flows have been discounted to their present values.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

**(i) 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;
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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.

**(j) Trade and Other Receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried 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.

**(k) 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 purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

**(l) 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.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) 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 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 using the Black - Scholes pricing model.

In valuing equity-settled transactions, no account is taken of any performance 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 period').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting period, reflects:

- (i) The extent to which the vesting period has expired; and
- (ii) The number of options 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 expense is recognised for awards that do not ultimately vest.

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.

**(n) Leases**

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The Group has no finance leases at year end.

**(o) Revenue Recognition**

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 of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Revenue Recognition (continued)**

*Interest*

Revenue is recognised as the 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.

*Licence fees and Royalties*

Revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement, and when it is probable that the fee or royalty will be received.

**(p) Government Grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When 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.

**(q) Trade and Other Payables**

Liability for trade creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed.

**(r) Income Tax**

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 difference 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 only recognised 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.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 substantively 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.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(r) Income Tax (continued)**

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

**(s) 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.

**(t) Employee Leave Benefits**

*Wages, Salaries and Annual Leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

**(u) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(v) Earnings Per Share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any 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 earnings per share is calculated as net profit attributable to members of the parent, 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.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**3. SEGMENT INFORMATION**

The Group operates in one geographic segment, being Australia. The Group's primary reporting format is business segments.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic unit that offers different products and serves different markets.

The chemical segment is a supplier of organo-boron compounds for the pharmaceutical markets. It offers products and services to research organisations and pharmaceutical companies. The research and development segment undertakes research associated with the commercialisation of the NovoSorb™ technology.

Transfer prices between business segments are set at an arms length basis in a manner similar to transactions with third parties.

**Business Segments**

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 2007.

	<i>Chemical (Boron Molecular)</i>	<i>Research and Development (PolyNovo)</i>	<i>Unallocated</i>	<i>Total</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Year ended 30 June 2008</b>				
<b>Segment Revenue</b>				
Segment revenue from external customers	4,285	230	-	4,515
Other revenue from external parties	153	196	46	395
<b>Total Segment Revenue</b>	<b>4,438</b>	<b>426</b>	<b>46</b>	<b>4,910</b>
Segment Net Profit	676	(2,676)	(703)	(2,703)
Segment Total Assets	3,017	7,200	196	10,413
Segment Total Liabilities	779	2,095	73	2,947
Capital Expenditure	74	54	-	128
Segment Depreciation & Amortisation	178	114	2	294
Net Reversal of Impairment Losses	-	-	2	2
<b>Segment Cash Flow</b>				
Net Cash Flow from Operating Activities	629	(2,107)	(884)	(2,362)
Net Cash Flow from Investing Activities	(76)	148	39	111
Net Cash Flow from Financing Activities	-	(359)	172	(187)

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**3. SEGMENT INFORMATION (continued)**

	<i>Chemical (Boron Molecular)</i>	<i>Research and Development (PolyNovo)</i>	<i>Unallocated</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2007</b>				
<b>Segment Revenue</b>				
Segment revenue from external customers	3,623	-	-	3,623
Other revenue from external parties	87	504	28	619
<b>Total Segment Revenue</b>	<b>3,710</b>	<b>504</b>	<b>28</b>	<b>4,242</b>
Segment Net Profit	58	(2,179)	(636)	(2,757)
Segment Total Assets	2,069	9,671	882	12,622
Segment Total Liabilities	525	1,884	193	2,602
Capital Expenditure	29	137	4	170
Segment Depreciation & Amortisation	231	99	17	347
Non Cash Write Downs	-	-	-	-
<b>Segment Cash Flow</b>				
Net Cash Flow from Operating Activities	148	(2,146)	(611)	(2,609)
Net Cash Flow from Investing Activities	10	90	24	124
Net Cash Flow from Financing Activities	-	-	2,786	2,786

**4. REVENUES AND EXPENSES**

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	\$'000	\$'000	\$'000	\$'000
<b>(a) Sales revenue</b>				
Sale of goods	4,298	3,623	-	-
Interest revenue	278	284	33	28
Licence fees	218	-	-	-
Reimbursement of costs	12	-	96	326
<b>Total sales revenue</b>	<b>4,806</b>	<b>3,907</b>	<b>129</b>	<b>354</b>
<b>(b) Other income</b>				
Government grants	73	268	-	-
Other income	31	67	-	-
<b>Total other income</b>	<b>104</b>	<b>335</b>	<b>-</b>	<b>-</b>
<b>Total revenue and income</b>	<b>4,910</b>	<b>4,242</b>	<b>129</b>	<b>354</b>

Various government grants have been received for setting up research activities. There are no unfulfilled conditions or contingencies attaching to these grants.

**(c) Depreciation, amortisation and foreign exchange differences included in costs of goods sold in Income Statement**

Included in cost of goods sold:

Depreciation	188	210	-	-
Net foreign exchange differences	97	61	-	-
<b>Costs of goods sold recognised as an expense</b>	<b>2,218</b>	<b>1,941</b>	<b>-</b>	<b>-</b>

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**4. REVENUES AND EXPENSES (continued)**

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>(d) Lease payments and other expenses included in Income Statement</b>				
Minimum lease payments - operating lease	563	517	2	23
<b>(e) Employee benefits expense</b>				
Wages and salaries	1,382	1,055	403	440
Workers' compensation costs	14	10	3	3
Superannuation costs	150	85	50	24
Expense of share-based payments	(23)	145	(17)	31
	<u>1,523</u>	<u>1,295</u>	<u>439</u>	<u>498</u>
<b>(f) Research and development costs</b>				
Research and development costs charged directly to the Income Statement	1,294	1,630	-	-
<b>(g) Depreciation expense</b>				
Depreciation expense charged directly to the Income Statement	106	137	2	17

**5. INCOME TAX**

Major components of income tax expense for the years ended 30 June 2008 and 2007 are:

**Income Statement**

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2008 and 2007 is as follows:

Net loss before income tax expense	(2,703)	(2,757)	(703)	(636)
Prima facie tax calculated at 30% (2007: 30%)	(811)	(827)	(211)	(191)
Expenditure not allowable for income tax purposes	-	84	(5)	21
Current year tax losses not brought to account	811	743	216	170
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	<i>BALANCE SHEET</i>		<i>INCOME STATEMENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>

**Deferred Income Tax**

Deferred income tax at 30 June relates to the following:

*CONSOLIDATED*

*Deferred income tax liabilities*

Net book value of intangibles	1,530	1,530	-	-
Gross deferred income tax liabilities	<u>1,530</u>	<u>1,530</u>	<u>-</u>	<u>-</u>

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**5. INCOME TAX (continued)**

As at 30 June 2008 the Company has tax losses arising in Australia of \$3,507,400 (2007: \$1,886,600) that are available for offset against future taxable profits of the Company.

*Tax Consolidation*

For the purpose of income taxation, Xceed Capital Limited and its 100% owned subsidiary have not formed a tax consolidated group and entry into a tax consolidated group is unlikely. From 1 July 2004, the carried forward tax losses of each entity in Xceed could only be used to offset taxable income of that individual entity. The carried forward losses of Boron Molecular at 30 June 2008 are \$275,000 (2007:\$523,400).

At 30 June 2008 PolyNovo had accumulated tax losses of \$7,298,850 (2007: \$5,275,000). PolyNovo is 63.9% owned by Xceed and has not formed a tax consolidated group with Xceed. Therefore these tax losses cannot be transferred within the group and can therefore only be utilised once PolyNovo is in profit.

*Availability of Tax Losses*

The availability of the tax losses held by the Company and each subsidiary in future periods is uncertain and will be dependent on the Company and its subsidiaries satisfying strict requirements with respect to continuity of ownership and the same business test imposed by income tax legislation.

The recoupment of available tax losses as at 30 June 2008 is contingent upon the following:

- (a) the Company and its subsidiaries deriving future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
- (b) the conditions for deductibility imposed by income tax legislation continuing to be complied with; and
- (c) there being no changes in income tax legislation which would adversely affect the Company, its subsidiaries and the consolidated Group from realising the benefit from the losses.

Given the Company and the consolidated Group's history of recent losses, the Group has not recognised a deferred tax asset with regard to unused tax losses, as it has not been determined that the Company and the consolidated Group will generate sufficient taxable profit against which the unused tax losses can be utilised.

**6. EARNING PER SHARE**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	<b>CONSOLIDATED</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Net profit / (loss) attributable to equity holders	(2,703)	(2,757)
Net profit / (loss) attributable to outside equity interest	(966)	(786)
Net profit / (loss) attributable to ordinary shareholders for basic and diluted earnings per share	<u>(1,737)</u>	<u>(1,971)</u>
Basic and diluted earnings per share – loss (in cents)	(1.74)	(2.19)
Weighted average number of ordinary shares for basic and diluted earnings per share	100,013,688	89,976,789
Weighted average number of converted, forfeited or cancelled potential ordinary shares included in diluted earnings per share	-	-



**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**6. EARNING PER SHARE (continued)**

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

The Company is currently in a loss position. The Company has options on issue which if exercised would result in the loss per share to decrease; this is not a dilutive effect. Therefore diluted earnings per share are equal to basic earnings per share.

The number of potential ordinary shares that are not dilutive is 13,706,733 (2007: 9,265,000).

**7. CASH AND CASH EQUIVALENTS**

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cash at bank and in hand	596	682	19	378
Short-term deposits	2,444	4,796	142	456
	<u>3,040</u>	<u>5,478</u>	<u>161</u>	<u>834</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is \$3,040,000 (2007: \$5,478,000).

The Group has no borrowings which are un-drawn, or any non-cash financing or investing activities.

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Reconciliation from the net profit after tax to the net cash flows from operations</b>				
Net profit / (loss)	(2,703)	(2,757)	(703)	(636)
<i>Adjustments for:</i>				
Interest received	(270)	(281)	(34)	(27)
Depreciation	294	347	2	17
Share options expensed	(23)	145	(17)	31
Cancelled capital raising costs	391	-	-	-
<i>Changes in assets and liabilities:</i>				
(Increase)/decrease in inventories	(208)	33	-	-
(Increase)/decrease in trade and other receivables	113	58	(37)	26
(Increase)/decrease in prepayments	(115)	(8)	25	(9)
(Increase)/decrease in carrying value of subsidiaries	-	-	2	-
(Decrease)/increase in trade and other payables	136	(160)	(91)	(5)
(Decrease)/increase in provisions	23	14	(31)	(7)
Net cash from operating activities	<u>(2,362)</u>	<u>(2,609)</u>	<u>(884)</u>	<u>(610)</u>

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**8. TRADE AND OTHER RECEIVABLES (CURRENT)**

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	490	497	-	2
Government grants receivable	-	93	-	-
Interest receivable	9	14	1	2
GST & ATO receivables	69	84	22	-
Allowance for impairment loss (a)	-	(8)	-	-
	<u>568</u>	<u>680</u>	<u>23</u>	<u>4</u>
Related party receivables:				
Owed by subsidiary	-	-	17	-
	<u>568</u>	<u>680</u>	<u>40</u>	<u>4</u>

*(a) Allowance for impairment loss*

Trade receivables and amounts owed by related parties are non-interest bearing and are generally on 30 – 90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment loss has been recognised by the Group in the current year (2007: nil).

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Movements in the allowance for impairment loss were as follows:				
At 1 July	8	8	-	-
Amounts recovered	(8)	-	-	-
At 30 June	-	8	-	-

At 30 June 2008, the ageing analysis of trade receivables is as follows:

		<b>Total</b>	<b>0-30 days</b>	<b>31-90 days</b>	<b>91+ days PDNI*</b>	<b>91+ days CI*</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
2008	<i>CONSOLIDATED</i>	490	1	489	-	-
	<i>PARENT</i>	-	-	-	-	-
2007	<i>CONSOLIDATED</i>	497	316	173	-	8
	<i>PARENT</i>	2	2	-	-	-

\* Past Due Not Impaired ("PDNI") Considered Impaired ("CI")

There are no receivables past due but not impaired at 30 June 2008. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

**9. INVENTORIES**

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Raw materials (at cost)	123	87	-	-
Work-in-progress (at cost)	28	60	-	-
Finished goods (at cost)	494	326	-	-
Provision for diminution in value of Inventory	(98)	(136)	-	-
Total inventories at lower of cost and net realisable value	<u>547</u>	<u>337</u>	<u>-</u>	<u>-</u>

The provision for diminution in the value of inventory is recognised directly in cost of sales in the Income Statement in the period for which the provision is raised.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**10. PROPERTY, PLANT AND EQUIPMENT**

	<i>CONSOLIDATED</i>			<i>PARENT</i>		
	<i>Leasehold Improvmt'</i>	<i>Plant &amp; equipt'</i>	<i>Total</i>	<i>Leasehold Improvmt'</i>	<i>Plant &amp; equipt</i>	<i>Total</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Year ended 30 June 2008</b>						
At 1 July 2007 net of accum' depreciation	65	885	950	-	6	6
Additions	-	128	128	-	-	-
Disposals	-	(4)	(4)	-	(4)	(4)
Depreciation charge for the year	(14)	(280)	(294)	-	(2)	(2)
At 30 June 2008, net of accum' depreciation	51	729	780	-	-	-
<b>At 1 July 2007</b>						
Cost	225	2,130	2,355	-	25	25
Accumulated depreciation	(160)	(1,245)	(1,405)	-	(19)	(19)
Net carrying amount	65	885	950	-	6	6
<b>At 30 June 2008</b>						
Cost	225	2,254	2,479	-	-	-
Accumulated depreciation	(174)	(1,525)	(1,699)	-	-	-
Net carrying amount	51	729	780	-	-	-
<b>Year ended 30 June 2007</b>						
At 1 July 2006 net of accum' depreciation	102	1,037	1,139	-	20	20
Additions	-	170	170	-	4	4
Disposals	-	(12)	(12)	-	(3)	(3)
Depreciation charge for the year	(37)	(310)	(347)	-	(15)	(15)
At 30 June 2007, net of accum' depreciation	65	885	950	-	6	6
<b>At 1 July 2006</b>						
Cost	225	1,972	2,197	-	24	24
Accumulated depreciation	(123)	(935)	(1,058)	-	(4)	(4)
Net carrying amount	102	1,037	1,139	-	20	20
<b>At 30 June 2007</b>						
Cost	225	2,130	2,355	-	25	25
Accumulated depreciation	(160)	(1,245)	(1,405)	-	(19)	(19)
Net carrying amount	65	885	950	-	6	6

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**11. INTANGIBLE ASSETS**

	<i>CONSOLIDATED</i>			<i>PARENT</i>
	<i>Licences \$'000</i>	<i>Patents \$'000</i>	<i>Total \$'000</i>	<i>Total \$'000</i>
<b>Year ended 30 June 2008</b>				
At 1 July 2007, net of accumulated amortisation and impairment	-	5,100	5,100	-
Additions	-	7	7	-
Amortisation of patent costs	-	(7)	(7)	-
At 30 June 2008, net of accumulated amortisation and impairment	-	5,100	5,100	-
<b>At 30 June 2008</b>				
Cost (gross carrying amount)	1,080	5,866	6,946	-
Accumulated amortisation and impairment	(1,080)	(766)	(1,846)	-
Net carrying amount	-	5,100	5,100	-
<b>Year ended 30 June 2007</b>				
At 1 July 2006, net of accumulated amortisation and impairment	-	5,100	5,100	-
Additions	-	15	15	-
Amortisation of patent costs	-	(15)	(15)	-
At 30 June 2007, net of accumulated amortisation and impairment	-	5,100	5,100	-
<b>At 30 June 2007</b>				
Cost (gross carrying amount)	1,080	5,859	6,939	-
Accumulated amortisation and impairment	(1,080)	(759)	(1,839)	-
Net carrying amount	-	5,100	5,100	-

For the year ended June 2008:

- The CSIRO patents transferred to PolyNovo have an indefinite life as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the entity.
- Patents and licences acquired by Boron Molecular have no carrying value at 30 June 2007 or 30 June 2008.

Refer to note 12 for discussion of Impairment.

**12. IMPAIRMENT TESTING OF INTANGIBLES**

Intangible assets have been allocated to two individual cash generating units, which are reportable segments, for impairment testing as follows:

- Chemicals
- Research and Development

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**12. IMPAIRMENT TESTING OF INTANGIBLES (continued)**

*Chemicals cash generating unit*

The recoverable amount of the intangible assets in the Chemicals unit has been determined based on a fair value basis. As at 30 June 2005 the Company undertook a review of the carrying value of intangibles. At this time the Company elected to provide a full provision for diminution with respect to the carrying value of the Boron Molecular license cost and the value of the patent portfolio, however these intangible assets are still in use. This decision was based on the basis of the difficulty in forecasting the future cash flows from this investment.

*Research and Development*

At 30 June 2007 and 30 June 2008, the Group tested the patents for impairment using the fair value less costs to sell method. The Group used an observable market price of Xceed's shares in PolyNovo, which after allocation to identifiable assets, supports the fact that the patents are not impaired.

**Carrying amount of goodwill, patents and licences allocated to each of the cash generating units**

					<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>Chemicals Segment</i>		<i>Research and Development Segment</i>		<i>Total</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cost of patents and licences	1,846	1,839	5,100	5,100	6,946	6,939	-	-
Less: amortisation	(671)	(664)	-	-	(671)	(664)	-	-
Less: impairment	(1,175)	(1,175)	-	-	(1,175)	(1,175)	-	-
Carrying amount of patents and licences	-	-	5,100	5,100	5,100	5,100	-	-

**13. OTHER FINANCIAL ASSETS (NON-CURRENT)**

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cost of investment in controlled entity (note 24)	-	-	15,045	15,045
Impairment losses recognised in prior years	-	-	(4,975)	(4,975)
Impairment losses recognised during the year (a)	-	-	(2,233)	-
Reversals of impairment losses during the year (b)	-	-	2,235	-
Carrying amount at 30 June	-	-	10,072	10,070

(a) At 30 June 2008, the Company reviewed the carrying amount of its investment in PolyNovo Biomaterials Limited for indicators of impairment. An impairment loss of \$2,233,000 (2007: nil) was recognised to reflect the decrease in the fair value less costs to sell Xceed's investment in PolyNovo as indicated through discussions held with third parties regarding potential investment in PolyNovo in May and June 2008.

(b) At 30 June 2008, the Company reviewed the carrying amount of its investment in Boron Molecular Pty Limited and prepared value in use calculations for the investment due to the significant increase in profitability of the company over the last three years. The value in use calculations were prepared by estimating the future cash inflows and outflows to be derived from continuing use of the asset, and applying a discount rate to those future cash flows of 15% p.a. As a result of these calculations, an impairment loss of \$2,235,000 was reversed in relation to the carrying value of Xceed's investment in Boron Molecular at 30 June 2008.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**14. SHARE BASED PAYMENTS**

**(a) Overview**

Xceed Capital Limited has two methods for the granting of options as part of an employee's remuneration:

1. Options issued to persons who are not directors of Xceed. Such options are made under the employee share option plan (ESOP) which provides for the granting of non transferable options to certain staff of the Group; and
2. Options issued to directors. Such options are made after shareholder approval, and generally provides for the granting of non transferable options to directors of Xceed Capital Limited.

**(b) Xceed Capital Limited - Employee share option plan**

All options issued under the ESOP whether vested or not, expired on the 30<sup>th</sup> June 2008.

No options were granted during the year under the employee share option plan and no options issued under the employee share option plan were exercised.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued under the ESOP.

	<b>2008 No.</b>	<b>2008 WAEP</b>	<b>2007 No.</b>	<b>2007 WAEP</b>
Outstanding at the beginning of the year	2,315,000	\$0.25	2,715,000	\$0.26
Granted during the year	-	-	-	-
Forfeited during the year	(2,315,000)	\$0.25	(400,000)	\$0.30
Outstanding at the end of the year	-	-	2,315,000	\$0.25
Exercisable at the end of the year	-	-	1,815,000	\$0.20

**(c) Options issued to directors subject to direct shareholder approval**

Options issued to directors in previous financial years have vested upon satisfaction of various performance conditions.

Other relevant terms and conditions applicable to options granted to directors include:

- of the options issued to date, those options not exercised by 30 June 2010 will expire.
- upon exercise, these options will be settled in ordinary shares of Xceed Capital Limited.

No options were issued to directors during the year.

During the year ended 30 June 2008, 500,000 employee options were exercised by a former director of the Company. Each option had an exercise price of \$0.20 and one fully paid ordinary share was issued for each option exercised. The options had a value of \$49,022 when they were originally granted. The volume weighted average price (VWAP) of Xceed shares on the date the options were exercised was \$0.214.

**(d) Summary of outstanding options issued by Xceed Capital Limited as at 30 June 2008**

	<b>Exercise Price</b>	<b>Former Director</b>	<b>Current Directors</b>	<b>ESOP</b>	<b>Total</b>	<b>Vested &amp; Exercisable</b>
30 June 2010	\$0.20	1,000,000	-	-	1,000,000	1,000,000
<b>Total</b>	-	1,000,000	-	-	1,000,000	1,000,000

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**14. SHARE BASED PAYMENTS (continued)**

**(e) PolyNovo Biomaterials share option plan**

PolyNovo Biomaterials Limited has an employee share option plan (ESOP) for the granting of non-transferable options to certain staff and directors of PolyNovo. Options issued under the ESOP will vest when the various conditions have been met:

- The options granted in the 2005 year will vest 50% after 12 months with the company and the balance after 24 months of employment;
- The options granted in the 2006 year to Dr Griffiths and 2 secondees will vest on the meeting of certain value creation events determined by the directors of PolyNovo. The vesting conditions include the signing of partner agreements and the meeting of research and development hurdles for specific programs. Associated with the meeting of the above hurdles, in some cases, there is a requirement to be employed by the company for specific time periods;
- The options granted in the 2007 year will vest after 12 months employment with the company.

Other relevant terms and conditions applicable to options granted under the ESOP include:

- the directors of PolyNovo have determined that the option pool will not exceed 10% of the issued capital of the company;
- any options that are unvested on 30 June 2008 (2005 options), 30 December 2009 (2007 options) or 31 December 2009 (2006 options) will be forfeited;
- any vested options that are unexercised on 30 June 2008 (2005 options) 30 December 2009 (2007 options) or 31 December 2009 (2006 options) (unless otherwise extended) will expire; and
- upon exercise, these options will be settled in ordinary shares of PolyNovo Biomaterials Limited.

No options were granted during the year under the employee share option plan.

The fair value of the options was estimated at the date of grant using the Black-Scholes pricing model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2008.

	<b>2008</b>	<b>2007</b>
Dividend yield (%)	-	-
Expected volatility (%)	-	60%
Risk-free interest rate (%)	-	5.94%
Expected life of option (years)	-	3 years
Option exercise price (\$)	-	\$1.20

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The probability that the performance hurdles will be met has been incorporated into the measurement of the fair value.

During the year ended 30 June 2008, no options were exercised over ordinary shares.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
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**14. SHARE BASED PAYMENTS (continued)**

**(e) PolyNovo Biomaterials share option plan (continued)**

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued under the ESOP.

	<b>2008 No.</b>	<b>2008 WAEP</b>	<b>2007 No.</b>	<b>2007 WAEP</b>
Outstanding at the beginning of the year	1,047,500	\$1.13	1,030,000	\$1.10
Granted during the year	-	-	50,000	\$1.20
Forfeited during the year	(472,500)	\$1.02	(32,500)	-
Outstanding at the end of the year	<u>575,000</u>	<u>\$1.20</u>	<u>1,047,500</u>	<u>\$1.13</u>
Exercisable at the end of the year	284,500	\$1.20	523,748	\$1.13

The outstanding balance as at 30 June 2008 is represented by:

- 525,500 options over ordinary shares with an exercise price of \$1.20 each, exercisable upon meeting the above conditions and until 31 December 2009 or at such other date as the non-executive directors determine.
- 50,000 options over ordinary shares with an exercise price of \$1.20 each, exercisable upon meeting the above conditions and until 30 December 2009 or at such other date as the non-executive directors determine.

Share options issued under the ESOP and outstanding at the end of the year have the following exercise prices:

<b><i>Expiry date</i></b>	<b><i>Exercise price</i></b>	<b><i>2008 No.</i></b>	<b><i>2007 No.</i></b>
30 June 2008	\$1.02	-	385,000
31 December 2009	\$1.20	525,000	612,500
30 December 2009	\$1.20	50,000	50,000
Total		<u>575,000</u>	<u>1,047,500</u>

**15. TRADE AND OTHER (CURRENT) PAYABLES**

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008 \$'000</b>	<b>2007 \$'000</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Trade payables	504	410	42	80
Other payables	464	422	31	84
	<u>968</u>	<u>832</u>	<u>73</u>	<u>164</u>

Trade payables and other payables are non-interest bearing and are normally settled on 30 to 60 day terms. Other payables are non-interest bearing and have an average term of 45 days.



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**16. PROVISIONS (CURRENT)**

	<i>Other Provisions</i>	<i>Annual leave</i>	<i>Total</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>CONSOLIDATED</b>			
At 1 July 2007	100	140	240
Arising during the year	-	182	182
Utilised	-	(159)	(159)
Re-classified as non-current	(100)	-	(100)
At 30 June 2008	-	163	163
<b>PARENT</b>			
At 1 July 2007	-	30	30
Arising during the year	-	8	8
Utilised	-	(38)	(38)
At 30 June 2008	-	-	-

**17. PROVISIONS (NON - CURRENT)**

	<i>Other Provisions</i>	<i>Annual leave</i>	<i>Total</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>CONSOLIDATED</b>			
At 1 July 2007	-	-	-
Arising during the year	-	-	-
Utilised	-	-	-
Reclassified from current	100	-	100
At 30 June 2008	100	-	100
<b>PARENT</b>			
At 1 July 2007	-	-	-
Arising during the year	-	-	-
Utilised	-	-	-
At 30 June 2008	-	-	-

**18. FINANCIAL INSTRUMENTS**

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>CURRENT ASSETS</b>				
Forward currency contracts – at fair value through profit or loss	185	-	-	-
<b>CURRENT LIABILITIES</b>				
Forward currency contracts - at fair value through profit or loss	186	-	-	-

**(a) Instruments used by the Group**

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates on large transactions.

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**18. FINANCIAL INSTRUMENTS (continued)**

*(i) Forward currency contracts*

In June 2008, Boron Molecular placed an order to purchase a new 630L reactor which is payable in Euros ("EUR"). In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase EUR. These contracts are hedging highly probable forecasted purchases and they are timed to mature when payments are scheduled to be made.

The cash flows are expected to occur between 2-5 months from 1 July 2008 and the purchases will be recorded as plant and equipment in the financial year ended 30 June 2009.

**19. CONTRIBUTED EQUITY**

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares				
Issued and fully paid	17,888	17,716	17,888	17,716
			<i>Number</i>	<i>\$000</i>
Movement in ordinary shares on issue				
At 1 July 2006			85,171,224	14,930
Exercise of options (A)			300,000	60
Issue of shares (B)			13,762,874	2,753
Share issue costs			-	(27)
Exercise of options (A)			1,000	-
At 30 June 2007			99,235,098	17,716
At 1 July 2007				
Exercise of options (C)			500,000	100
Exercise of options (C)			361,428	72
At 30 June 2008			100,096,526	17,888

- (A) 300,000 ordinary shares were issued on 21 November 2006 following the exercise of \$0.20 options. On 30 May 2007 a further 1,000 ordinary shares were issued following the exercise of 1,000 listed options.
- (B) Following a Non Renounceable Rights issue which closed on 22 February 2007, a total of 13,762,874 ordinary shares were issued. Under the terms of the issue, certain applicants were also entitled to receive an attaching option, exercisable until 31 January 2010 at \$0.20 per option. A total of 13,069,161 listed options were issued. Prior to 30 June 2007, 1,000 of these options were exercised (see (A), above), leaving a balance of listed options at 30 June 2007 of 13,068,161.
- (C) 500,000 ordinary shares were issued on the 31<sup>st</sup> July 2007 following the exercise of \$0.20 executive management options. On 10<sup>th</sup> August 2007 a further 361,428 ordinary shares were issued following the exercise of 361,428 listed \$0.20 options.

*Unissued Shares*

There were 1,000,000 unissued ordinary Xceed Capital Limited shares under executive management options at 30 June 2008 (2007: 9,265,000) and 12,706,733 listed options (2007: 13,068,161). Refer to note 14 of the financial statements for further details of the options outstanding.

Option holders do not have the right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

**XCEED CAPITAL LIMITED**  
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**20. ACCUMULATED LOSSES AND RESERVES**

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Accumulated Losses</b>				
Accumulated losses at beginning of financial year	(10,546)	(8,380)	(7,454)	(6,818)
Acquisition of accumulated losses	-	(195)	-	-
Net (loss) attributable to members of the parent entity	(1,737)	(1,971)	(703)	(636)
Share-based payments	(20)	-	-	-
Accumulated losses at end of financial year	<u>(12,303)</u>	<u>(10,546)</u>	<u>(8,157)</u>	<u>(7,454)</u>
<b>Reserves</b>				
Reserve at beginning of year	39	145	496	465
Share-based payments	(1)	106	(15)	31
Dilution and other reserves	-	(212)	-	-
Accumulated at end of financial year	<u>38</u>	<u>39</u>	<u>481</u>	<u>496</u>

**Nature and purpose of reserves**

*Share Based Payment Reserve*

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to notes 14 and 27.

*Dilution Reserve*

The dilution reserve is used to record the effect of the issuance of share capital to the majority shareholder and the consequential movement in accumulated losses between the shareholders.

**21. MINORITY INTEREST**

Reconciliation of outside equity interest in controlled entities:

Opening Balance	2,811	3,150	-	-
Movement in reserves – minority interest	(2)	40	-	-
Reduction of minority interest due to capital raising	-	407	-	-
Add share of net profit / (loss)	(966)	(786)	-	-
Closing Balance	<u>1,843</u>	<u>2,811</u>	<u>-</u>	<u>-</u>

The minority interest reflects the portion of the equity of the Group which are attributable to the minority interest holder as a result of their shareholding in PolyNovo.

**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits which arise directly from its operations.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

**XCEED CAPITAL LIMITED**  
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**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Risk Exposures and Responses**

*Interest rate risk*

The Group generates income from interest on surplus funds.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian Variable interest rate risk that are not designated in cash flow hedges:

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Financial Assets</b>				
Cash and cash equivalents	3,040	5,478	161	834
Net Exposure	3,040	5,478	161	834

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to alternative financing, hedging positions and the mix of fixed and variable interest rates.

The Group currently has short term deposits at variable interest rates. The average interest rate applying to cash in the year was 6.64% (2007: 6.10%).

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. The reasonably possible changes in interest rates used below were derived by reference to the maximum movement in historical interest rates per year over the last 10 years.

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgments of reasonably possible movements (based on historical yearly movements in interest rates):

	<b>Post Tax Profit</b>		<b>Equity</b>	
	<b>Higher/ (Lower)</b>		<b>Higher/ (Lower)</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Consolidated</b>				
+1% (100 basis points)	31	35	-	-
-0.5% (50 basis points)	(15)	(16)	-	-
<b>Parent</b>				
+1% (100 basis points)	6	5	-	-
-0.5% (50 basis points)	(3)	(2)	-	-

The movements in profit are due to higher / lower interest income on cash balances. The consolidated sensitivity is lower in 2008 than in 2007 due lower balances of short term deposits during the year.

*Foreign currency risk*

As a result of a significant customer base in the United States, the Group's performance can be affected significantly by movements in the US\$/A\$ exchange rates. Therefore the Group has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's measurement currency.

Approximately 95% of the Group's sales are denominated in currencies other than the reporting currency of the operating unit making the sale, whilst almost 85% of costs are denominated in the unit's reporting currency.

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**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Foreign currency risk (continued)*

The Group reduces its foreign currency risk by ensuring it transfers the majority of funds into Australian dollars once settlement is made by its customers.

At 30 June 2008, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Financial Assets</b>				
Cash and cash equivalents	235	91	-	-
Trade and other receivables	457	412	-	-
	<b>692</b>	<b>503</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>				
Trade and other payables	120	74	-	-
	<b>120</b>	<b>74</b>	<b>-</b>	<b>-</b>
Net Exposure	<b>572</b>	<b>429</b>	<b>-</b>	<b>-</b>

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. The reasonably possible changes in exchange rates used below were derived by reference to the maximum movement in historical exchange rates per year over the last 5 years.

At 30 June 2008, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgments of reasonably possible movements (based on historical yearly movements in exchange rates):

	<b>Post Tax Profit</b>		<b>Equity</b>	
	<b>Higher/ (Lower)</b>		<b>Higher/ (Lower)</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Consolidated</b>				
AUD/USD +10%	(54)	(46)	-	-
AUD/USD -5%	31	26	-	-
<b>Parent</b>				
AUD/USD +10%	-	-	-	-
AUD/USD -5%	-	-	-	-

The movements in profit and equity in 2008 are more sensitive than in 2007 due to the higher level of US dollars held in cash at bank at balance date. Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

*Credit risk*

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at each balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties and as such collateral is not requested nor is it in the Group's policy to securitise its trade and other receivables.

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**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Credit risk (continued)*

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

*Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, finance leases and issues of equity securities. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant and equipment and investments in working capital e.g. inventories and trade receivables.

The Group's policy is that not more than 40% of borrowings should mature in any 12 month period.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial liabilities as at 30 June 2008. Cash flows for financial liabilities with fixed amount or timing are presented with their respective discounted cash flows for the respective upcoming fiscal years.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
6 months or less	1,154	832	73	164
6-12 months	-	-	-	-
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
	1,154	832	73	164

**Maturity analysis of financial assets and liabilities based on management's expectation**

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant and equipment and investments in working capital e.g. inventories and trade receivables. These assets are considered in the Group's overall liquidity risk.

To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Xceed Capital Limited has established comprehensive risk reporting covering its worldwide business units that reflect expectations of management of expected settlement of financial assets and liabilities.

	<b>≤6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Consolidated</b>					
<b>Financial assets</b>					
Cash and cash equivalents	3,040	-	-	-	3,040
Trade and other receivables	568	-	-	-	568
<b>Financial Liabilities</b>					
Trade and other payables	968	-	-	-	968
Net Maturity	2,640	-	-	-	2,640

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**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Liquidity risk (continued)*

	<b>≤6 months \$000</b>	<b>6-12 months \$000</b>	<b>1-5 years \$000</b>	<b>&gt;5 years \$000</b>	<b>Total \$000</b>
<b>Parent</b>					
<b>Financial assets</b>					
Cash and cash equivalents	161	-	-	-	161
Trade and other receivables	40	-	-	-	40
<b>Financial Liabilities</b>					
Trade and other payables	73	-	-	-	73
Net Maturity	128	-	-	-	128

The Group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow.

Forecast liquidity reserves as at 30 June 2008 is as follows:

	<b>30 June</b>	
	<b>2009 \$000</b>	<b>2010-2013 \$000</b>
<b>Opening balance for the period</b>	3,040	539
Operating inflows	4,805	19,400
Operating outflows	(7,363)	(29,050)
Cash outflows for investments	(966)	(922)
Proceeds from sale of investments	-	-
Financing proceeds	1,200	12,000
Payments of debts and dividends	(177)	(355)
<b>Closing balance for the period</b>	539	1,612

**Fair values**

Fair values of financial assets and liabilities are equivalent to carrying values due to their short terms to maturity.

**23. COMMITMENTS**

**(a) Leasing Commitments**

Future minimum rentals payable under non-cancelable operating leases as at 30 June 2008 are as follows:

	<b>CONSOLIDATED</b>		<b>PARENT</b>	
	<b>2008 \$'000</b>	<b>2007 \$'000</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Within one year	354	35	-	-
After one year but not more than five years	1,415	-	-	-
More than five years	1,902	-	-	-
	3,671	35	-	-

**(b) Property, Plant and Equipment Commitments**

At 30 June 2008 the Group had contractual obligations to purchase plant and equipment for \$186,300 (2007: \$nil) relating to the plant facility expansion of Boron Molecular Pty Ltd. This commitment is expected to be settled within 12 months from balance date.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
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**23. COMMITMENTS (continued)**

**(c) Legal Claims and Guarantees**

At 30 June 2008 the Group had no pending legal claims or outstanding guarantees (2007: \$nil).

**(d) Remuneration Commitments to staff of Boron Molecular Pty Limited**

Boron Molecular has entered into an incentive program with its staff, commencing 1 July 2008. This incentive program supersedes the previous schemes. All liabilities relating to the previous schemes have been accrued within the accounts to 30 June 2008. Staff are entitled to a bonus payment on the basis that certain target EBITDA profit levels are achieved. The maximum potential liability is approximately \$216,000 on the basis that the EBITDA generated (prior to reimbursement of inter-company charges to Xceed but after the payment of the bonus) is \$955,000.

**24. RELATED PARTY DISCLOSURE**

The consolidated financial statements include the financial statements of Xceed Capital Limited and the subsidiaries listed in the following table.

<i>Name</i>	<i>Country of incorporation</i>	<i>% Equity interest</i>		<i>Investment (\$'000)</i>	
		<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
PolyNovo Biomaterials Limited	Australia	64	64	7,837	10,070
Boron Molecular Pty Limited	Australia	100	100	2,235	-
				10,072	10,070

Xceed Capital Limited is the ultimate Australian parent entity.

The following provides the total amount of transactions which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to note 8).

***The ultimate parent***

Xceed was reimbursed for the following expenditure initially incurred by it but relating to PolyNovo and Boron Molecular activities during the year:

- Company secretarial and financial reporting costs;
- Directors officers indemnity and other insurance costs;
- Office facilities costs

The total of these costs paid by PolyNovo was \$33,840 for the year (2007: \$51,602) and for Boron Molecular \$130,473 (2007: \$315,450).

***Subsidiaries***

There were no transactions between subsidiaries during the financial year (2007: \$nil).

***Other***

During the financial year, PolyNovo incurred costs totaling \$411,712 to CSIRO (2007: \$509,433) for the provision of facilities, purchase of materials and consumables and the provision of technical services. CSIRO is a shareholder in PolyNovo. \$175,331 was outstanding at 30 June 2008 (2007: \$51,345).

During the year ended 30 June 2008, Boron Molecular incurred royalties to CSIRO totaling \$13,423 (2007: \$79,389). \$22,456 was outstanding at 30 June 2008 (2007: \$45,544).

Remuneration for non-executive directors of PolyNovo Biomaterials Ltd is paid directly by the nominating shareholders. PolyNovo has no liability to pay or reimburse directors fees to its current non-executive directors.



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**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
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**24. RELATED PARTY DISCLOSURE (continued)**

***Terms and conditions of transactions with related parties***

Sales to and purchases from related parties are made in arms length transactions at both normal market prices and normal commercial terms.

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

**25. EVENTS AFTER THE BALANCE SHEET DATE**

The following significant events occurred after balance date that requires reporting:

**1. Further investment into PolyNovo**

On the 8<sup>th</sup> July 2008, Xceed signed a subscription agreement with PolyNovo enabling a further investment in the company up to \$5 million, which if fully subscribed would take Xceed's shareholding in PolyNovo from 64% up to a maximum of 76%.

The material terms of the subscription agreement are summarised as follows:

1. The three current directors of PolyNovo will remain on the Board being Dr Ian Griffiths (Chief Executive Officer), Mr Bruce Rathie (Chairman) and Mr Peter Francis (Non-Executive Director). In addition, Xceed will appoint two Non-Executive Directors, being Mr George Cameron-Dow and Dr Stewart Washer.
2. A condition precedent to the new investment in PolyNovo is that the Shareholders Agreement in place between the two current shareholders of PolyNovo, being the CSIRO and Xceed, will be terminated and replaced. Further, the CSIRO must also provide a written waiver to Xceed of any rights it holds that would prevent or qualify the issue of shares and options under the subscription agreement.
3. Xceed can initially subscribe for 3,458,333 new shares in PolyNovo for a total of \$2.5 million with settlement to occur within 75 days of the conditions precedent outlined above in 2 being satisfied. Xceed has the right to procure third party subscribers to take up the subscription of PolyNovo shares and options.
4. If a legally binding term sheet is entered into with Metabolic Pharmaceuticals Ltd ("MBP") prior to the 18<sup>th</sup> July 2008 and the transaction described in the MBP term sheet is completed within 120 days of its signing and there is no occurrence of a "Failure Event" (as defined in the MBP term sheet) Xceed will have no further rights or obligations to subscribe for shares under this subscription agreement. If there is a "Failure Event" (as defined in the MBP term sheet), then Xceed will comply with the terms of this subscription agreement.
5. Subject to settlement occurring in 3, Xceed will also be granted options in PolyNovo as follows:
  - 2,500,000 unlisted options with an exercise price of \$1.00. These options may be exercised at any time or times in one or more tranches from the date of issue until 18 months from that date;
  - 2,083,333 unlisted options with an exercise price of \$1.20. These options may be exercised at any time or times in one or more tranches from the date of issue until 30 months from that date.
6. Xceed will also have the right to subscribe for an additional 3,458,333 new shares in PolyNovo for a total of \$2.5m exercisable within 60 days of the initial \$2.5m investment being made and will be granted a second tranche of options on the same number and terms as the initial tranche of options outlined in 5 above.

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**25. EVENTS AFTER THE BALANCE SHEET DATE (continued)**

**2. Sale of PolyNovo to Metabolic**

On the 17<sup>th</sup> July 2008, Xceed signed a binding term sheet to sell its 64% shareholding in PolyNovo to Metabolic Pharmaceuticals Limited (ASX: MBP) ("Metabolic").

The material terms of the binding term sheet signed with Metabolic are as follows:

1. Subject to satisfaction of relevant conditions precedent, Metabolic will acquire 100% of the issued share capital of PolyNovo from its current shareholders, Xceed and CSIRO, in exchange for new issued shares in Metabolic.

The new shares issued by Metabolic to Xceed and CSIRO will be equal to 45% of the issued shares in Metabolic. The current issued capital including performance rights of Metabolic is around 302 million shares. After the completion of the transaction, Metabolic will issue approximately 158 million shares to Xceed and 89 million shares to CSIRO, with the new issued capital of Metabolic being approximately 549 million shares. Metabolic has around \$15 million in cash equivalent to \$0.05 cents per share.

2. Xceed will, subject to receiving a favourable class ruling from the Australian Taxation Office, distribute in-specie the Metabolic shares it receives by way of a capital reduction to its shareholders. Xceed has agreed that, by no later than 12 months after the completion of the transaction, or 6 months after the release from any escrow conditions (whichever is the later to occur) it will own not more than 10% of the issued capital of Metabolic.

Xceed has also entered into an agreement which will restrict its voting power, except in certain customary circumstances, whilst it holds in excess of 10% of Metabolic.

3. Metabolic has agreed to advance PolyNovo up to \$2 million to enable the company to move forward with its business development while the transaction is completed, which is estimated to take 3 months. An initial \$1 million will be paid upon the signing of the binding term sheet, and further payments up to an aggregate of \$1 million may be advanced following satisfactory due diligence and satisfaction of relevant drawdown conditions.

In the event that the transaction does not complete, Metabolic may require repayment of the loan, or convert the loan into equity in PolyNovo.

4. Upon completion of the transaction, the Chief Executive Officer of PolyNovo, Dr Ian Griffiths, will be appointed Chief Executive Officer and Managing Director of Metabolic, and he will resign as a Director of Xceed.
5. Dr Stewart Washer will be appointed to the Board of Metabolic as Xceed's representative, and will remain on the Metabolic Board so long as Xceed holds more than 10% of the shares in Metabolic.
6. It is intended that upon completion of the transaction, Metabolic will change its name to PolyNovo Biomaterials Ltd, and PolyNovo, as a subsidiary, will also change its name. The staff of both companies will be retained to ensure the smooth transition to the Company's future direction which will be to focus on the implementation of the PolyNovo business plan.

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**26. AUDITORS' REMUNERATION**

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	\$	\$	\$	\$
Amounts received or due and receivable by Ernst & Young Australia for:				
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	88,830	86,000	62,050	50,000
▪ Assurance services in relation to the proposed Initial Public Offering for PolyNovo Biomaterials Ltd	36,700	-	-	-
▪ Income Tax services provided to PolyNovo Biomaterials Ltd	5,000	-	-	-
	<u>130,530</u>	<u>86,000</u>	<u>62,050</u>	<u>50,000</u>

**27. DIRECTORS AND EXECUTIVE DISCLOSURES**

**(a) Details of Key Management Personnel**

*(i) Directors*

P. O'Connor	Non-Executive Chairman
S. Washer	Executive Director
G. Cameron-Dow	Executive Director
I. Griffiths	Non-Executive Director and Chief Executive Officer of PolyNovo Biomaterials Ltd
P. Francis	Non-Executive Director
T. Adcock	Non-Executive Director
D. Kenley	Managing Director and Chief Executive Officer - resigned 14 March 2008
S. Belben	Alternate Director – appointed 16 May 2008 and resigned 27 <sup>th</sup> August 2008

*(ii) Executives*

D. Williamson	Chief Financial Officer and Company Secretary – resigned 30 November 2007
S. Courtney	Managing Director – Boron Molecular Pty Ltd
T. Gunatillake	Chief Scientific Officer – PolyNovo Biomaterials Ltd
L. Fossaert	Chief Operating Officer – PolyNovo Biomaterials Ltd

**(b) Remuneration of Key Management Personnel**

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	\$	\$	\$	\$
Short-term employee benefits	1,046,193	1,239,000	329,042	559,826
Post-employment benefits	203,894	69,988	55,129	26,544
Other long-term benefits	-	-	-	-
Termination benefits	125,898	-	125,898	-
Share-based payment	(36,112)	61,762	(26,752)	5,331
Total compensation	<u>1,339,873</u>	<u>1,370,750</u>	<u>483,317</u>	<u>591,701</u>

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**27. DIRECTORS AND EXECUTIVE DISCLOSURES (continued)**

**(c) Shareholdings of Key Management Personnel**

*Shares held in Xceed Capital Limited*

	<i>Balance 01-Jul-07</i>	<i>Net Change</i>	<i>Balance 30-June-08</i>
	<i>Ord</i>	<i>Ord</i>	<i>Ord</i>
<b>Directors</b>			
P. O'Connor	14,347,334	(3,032,651)	11,314,683
S. Washer	-	-	-
G. Cameron-Dow	-	67,788	67,788
I. Griffiths	34,284	-	34,284
P. Francis	898,199	-	898,199
T. Adcock	-	150,000	150,000
D. Kenley	851,600	-	851,600
S. Belben	-	16,947	16,947
<b>Executives</b>			
D. Williamson	-	-	-
S. Courtney	-	-	-
T. Gunatillake	-	-	-
L. Fossaert	-	-	-
<b>Total</b>	<b>16,131,417</b>	<b>(2,797,916)</b>	<b>13,333,501</b>

All equity transactions with directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

**(d) Listed Option holdings of directors and executives in Xceed Capital Limited**

*Listed Options held in Xceed Capital Limited*

	<i>Balance 01-Jul-07</i>	<i>Net Change</i>	<i>Balance 30-June-08</i>
<b>Directors</b>			
P. O'Connor	2,500,000	(533,915)	1,966,085
S. Washer	-	-	-
G. Cameron-Dow	-	11,779	11,779
I. Griffiths	5,714	-	5,714
P. Francis	149,699	-	149,699
T. Adcock	-	-	-
D. Kenley	141,933	-	141,933
S. Belben	-	2,945	2,945
<b>Executives</b>			
D. Williamson	-	-	-
S. Courtney	-	-	-
T. Gunatillake	-	-	-
L. Fossaert	-	-	-
<b>Total</b>	<b>2,797,346</b>	<b>(519,191)</b>	<b>2,278,155</b>

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**27. DIRECTORS AND EXECUTIVE DISCLOSURES (continued)**

**(d) Listed Option holdings of directors and executives in Xceed Capital Limited (continued)**

All equity transactions with directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

**(e) Employee Option holdings of directors and executives in Xceed Capital Limited**

	<i>Balance at beginning of period 01-Jul-07</i>	<i>Granted as Remuneration</i>	<i>Options Exercised</i>	<i>Options Expired</i>	<i>Balance at end of period 30-Jun-08</i>	<i>Not Vested &amp; Not Exercisable</i>	<i>Vested &amp; Exercisable</i>
<b>Directors</b>							
P. O'Connor	-	-	-	-	-	-	-
S. Washer	-	-	-	-	-	-	-
G. Cameron-Dow	-	-	-	-	-	-	-
I. Griffiths	1,000,000	-	-	(1,000,000)	-	-	-
P. Francis	250,000	-	-	(250,000)	-	-	-
T. Adcock	-	-	-	-	-	-	-
D. Kenley	2,000,000	-	-	(1,000,000)	1,000,000	-	1,000,000
S. Belben	-	-	-	-	-	-	-
<b>Executives</b>							
D. Williamson	800,000	-	-	(800,000)	-	-	-
S. Courtney	200,000	-	-	(200,000)	-	-	-
T. Gunatillake	-	-	-	-	-	-	-
L. Fossaert	-	-	-	-	-	-	-
<b>Total</b>	<b>4,250,000</b>	<b>-</b>	<b>-</b>	<b>(3,250,000)</b>	<b>1,000,000</b>	<b>-</b>	<b>1,000,000</b>

**(f) Option holdings of directors and executives in PolyNovo Biomaterials Limited**

	<i>Balance at beginning of period 01-Jul 07</i>	<i>Granted as Remuneration</i>	<i>Options Exercised</i>	<i>Options Expired</i>	<i>Balance at end of period 30-Jun-08</i>	<i>Not Vested &amp; Not Exercisable</i>	<i>Vested &amp; Exercisable</i>
<b>Directors</b>							
I. Griffiths	550,000	-	-	(200,000)	350,000	115,500	234,500
<b>Executives</b>							
T. Gunatillake	315,000	-	-	(140,000)	175,000	175,000	-
<b>Total</b>	<b>865,000</b>	<b>-</b>	<b>-</b>	<b>(340,000)</b>	<b>525,000</b>	<b>290,500</b>	<b>234,500</b>

**(g) Loans to directors and executives**

There are no loans to directors or executives at balance date.

**(h) Other transactions and balances with directors and executives**

*Legal Services*

During the year, purchases totaling \$216,561 (2007: \$98,957) at normal market prices have been made by Group companies from Francis Abourizk Lightowlers, of which Mr Peter Francis is associated. \$9,125 was outstanding at 30 June 2008 (2007: \$27,569).

**XCEED CAPITAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2008**

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**27. DIRECTORS AND EXECUTIVE DISCLOSURES (continued)**

**(h) Other transactions and balances with directors and executives (continued)**

*Other Services*

Payments of \$116,667 (2007: \$nil) were made to St George Capital Pty Ltd of which Mr Patrick O'Connor and Mr George Cameron-Dow are directors, for the provision of offices, financial management and company secretarial services. \$18,333 was outstanding at 30 June 2008 (2007: nil).

**28. CONTINGENT LIABILITIES**

There are no contingent liabilities as at 30 June 2008.

**29. FRANKING CREDIT BALANCE**

The franking credit balance of the Company is nil as no tax has been paid.

**30. COMPANY DETAILS**

The registered office of the Company is:  
Level 9  
105 St Georges Tce  
Perth WA 6000

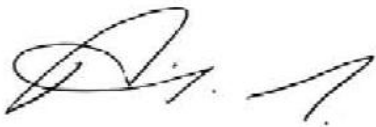
**XCEED CAPITAL LIMITED**  
**DIRECTORS' DECLARATION**

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In the opinion of the directors of Xceed Capital Limited:

- (a) the financial statements, notes as set out on pages 22 to 60 and additional disclosures included in the directors report designated as audited by the company and of the consolidated entity are in accordance with the Corporations Act 2001:
  - (i) give a true and fair view of the Company and the Consolidated Entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) comply with Accounting Standards, the Corporations Regulations 2001 and International Financial Reporting Standards.
- (b) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for financial period ending 30 June 2008.
- (c) in the directors' opinion, 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 Board of Directors:



Mr Patrick O'Connor  
Chairman

Dated this 28<sup>th</sup> day of August 2008

## Independent auditor's report to the members of Xceed Capital Limited

### Report on the Financial Report

We have audited the accompanying financial report of Xceed Capital Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

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



### **Auditor's Opinion**

In our opinion:

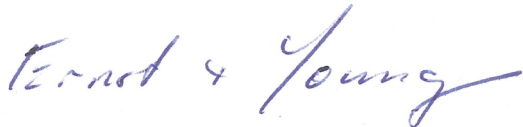
1. the financial report of Xceed Capital Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of Xceed Capital Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Report on the Remuneration Report**

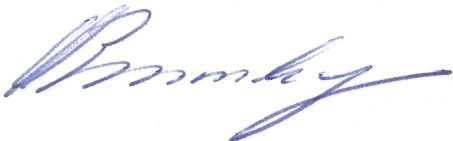
We have audited the Remuneration Report included in pages 13 to 19 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Auditor's Opinion**

In our opinion the Remuneration Report of Xceed Capital Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Don Brumley'.

Don Brumley  
Partner  
Melbourne  
28 August 2008