

29 August 2003.

Company Announcements Officer
Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000.

Dear Sir,

Re: Appendix 4E – Preliminary Final Report 30 June 2003.

The Board of Progen Industries Limited announce the preliminary result of the company for the year ending 30 June 2003.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | Percentage Movement | 2003 \$'000 | 2002 \$'000 |
|--|--------------------------------|------------------------|------------------------|
| Revenue from ordinary operating activities | 21.1% | 6,064 | 5,009 |
| Revenue from non-operating activities | 221.2% | 2,091 | 651 |
| Total Revenue | 44.1% | <u>8,155</u> | <u>5,660</u> |
| Loss from ordinary activities after income tax expense, before equity accounting for associate entity | 21.4% | 5,899 | 4,860 |
| Share of equity loss in associate entity | 29.6% | 1,679 | 1,296 |
| Net loss attributable to members | 23.1% | <u>7,578</u> | <u>6,156</u> |

Revenue from ordinary operating activities is made up of revenue from Contract Services, Lifesciences i.e. Commercial Services division, and other ordinary operating activities. Commercial services had another good year and increased revenue by 24% to \$4.8 million and contributed \$1.2 million EBITDA towards reducing the operating loss from ordinary activities. Revenue from other ordinary operating activities, increased by 11% to \$1.3 million.

Revenue from non-operating activities relates to the sale of a listed investment.

The increase in operating loss from ordinary activities is due the increase in research and development activities, including full year costs of collaboration agreements, ongoing and additional clinical trials for PI-88 and PI-166, costs of the scientific development division responsible for the in-licensing of PI -166 and associated in-licensing fees and a number of corporate initiatives.

The accounting of the equity loss associated with Progen's investment in Medigen Biotechnology Corporation for the year ending 30 June, 2003 of \$1.7 million includes an unrealised foreign exchange loss of \$380,000. The unrealised foreign exchange loss is due to the strengthening of the Australian dollar over the Taiwanese dollar. In the past the exchange difference was minimal and did not distort the losses previously brought to account.

| Dividends (distributions) | Amount per security | | Franked amount per security | |
|---------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|
| | 2003 Cents per share | 2002 Cents per share | 2003 Cents per share | 2002 Cents per share |
| Final dividend | Nil | Nil | Nil | Nil |
| Interim dividend | Nil | Nil | Nil | Nil |

The Company is unlikely to be paying a dividend in the foreseeable future.

FINANCIAL STATEMENTS

Statement of Financial Performance for the year ended 30 June 2003.

| | Notes | 2003 \$'000 | 2002 \$'000 |
|---|-------|----------------|----------------|
| Revenue from Ordinary Activities | | | |
| Sales Revenue | | 4,779 | 3,850 |
| Other Revenue from Ordinary Activities | | 1,285 | 1,159 |
| Revenue form Non – Operating Activities | | | |
| Revenue from sale of non current investment | | 2,091 | 651 |
| Total Revenue from Operating and Non-Operating Activities | 1 | 8,155 | 5,660 |
| Loss from ordinary activities before equity accounting for interest in associated entity and income tax expense | 2 | (5,899) | (4,860) |
| Share of equity loss in associated entity | 3 | (1,679) | (1,296) |
| Loss from ordinary activities before income tax expense | | (7,578) | (6,156) |
| Income tax expense | 4 | - | - |
| Net Loss | | (7,578) | (6,156) |
| Basic and diluted earnings per share (cents per share) | | (31.1) | (25.2) |
| Reconciliation of accumulated losses | | | |
| Balance of accumulated losses at 1 July 2002 | | (44,612) | (38,456) |
| Current year losses | | (7,578) | (6,156) |
| Accumulated losses carried forward at 30 June 2003 | | (52,190) | (44,612) |

NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

1. Revenue from operating activities

| | | |
|---|-------|-------|
| Revenue from operating activities | | |
| Revenue from sale of goods | 2,980 | 2,507 |
| Revenue from services | 1,799 | 1,343 |
| Total revenue from operating activities | 4,779 | 3,850 |
| Other revenue from operating activities | | |
| Interest | 493 | 725 |
| Grant recovery | 743 | 236 |
| Proceeds from sale of property, plant and equipment | 27 | 27 |

NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE (CONT'D)

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Other revenue | 22 | 171 |
| Total other revenues from operating activities | 1,285 | 1,159 |
| Revenue from non-operating activities | | |
| Revenue from sale of non-current investment | 2,091 | 651 |
| Total revenues from operating and non-operating activities | 8,155 | 5,660 |

2. Expenditure incurred on ordinary operating activities

| | | |
|--|---------------|---------------|
| Borrowing costs expensed | 13 | 6 |
| Carrying value of non current investments sold | 2,140 | - |
| Cost of sales | 1,919 | 1,780 |
| Consumable costs | 133 | 383 |
| Occupancy costs | 96 | 92 |
| Other expenses from ordinary activities | 1,234 | 1,267 |
| Research and development costs | 4,547 | 4,169 |
| Selling, marketing, administration and corporate costs | 3,972 | 2,823 |
| Total | 14,054 | 10,520 |

The increase in expenditure is mainly attributable to the cost of the listed investment in floating rates notes, which have been sold and the increase in research and development activities, including full year costs of collaboration agreements, ongoing and additional clinical trials for PI-88 and PI-166, costs of the scientific development division responsible for the in-licensing of PI - 166 and associated in-licensing fees and a number of corporate initiatives.

3. Share of equity loss in associated entity

| | | |
|---|-------|-------|
| Investment in Medigen Biotechnology Corporation | 1,679 | 1,296 |
|---|-------|-------|

This represents the 19.9% share of the Company's interest in Medigen's operating loss for the year

4. Income tax expense

The company has significant carried forward losses, and has not brought the tax benefit attributable to these loss to account until future assessable income of a nature and amount is sufficient to enable the benefit to be realised.

| | |
|---|---|
| - | - |
|---|---|

STATEMENT OF FINANCIAL POSITION
for the year ended 30 June 2003

| | Notes | 2003 \$'000 | 2002 \$'000 |
|--|-------|----------------|----------------|
| Current Assets | | | |
| Cash assets | | 11,995 | 11,407 |
| Receivables | | 666 | 502 |
| Inventories | | 796 | 374 |
| Other | | 94 | 564 |
| Total Current Assets | | 13,551 | 12,847 |
| Non-Current Assets | | | |
| Investment in associate, accounted for using the equity method | 5 | 1,883 | 3,381 |
| Other financial assets | 6 | - | 2,243 |
| Property, plant and equipment | | 1,769 | 2,396 |
| Other | | 15 | 15 |
| Total Non-Current Assets | | 3,667 | 8,035 |
| Total Assets | | 17,218 | 20,882 |
| Current Liabilities | | | |
| Payables | | 1,707 | 1,190 |
| Interest-bearing liabilities | | - | 420 |
| Provisions | | 217 | 169 |
| Other | | 593 | 527 |
| Total Current Liabilities | | 2,517 | 2,306 |
| Non-Current Liabilities | | | |
| Provisions | | 70 | 75 |
| Total Non-Current Liabilities | | 70 | 75 |
| Total Liabilities | | 2,587 | 2,381 |
| Net Assets | | 14,631 | 18,501 |
| Equity | | | |
| Contributed Equity | 7 | 67,143 | 63,616 |
| Accumulated losses | | (52,190) | (44,612) |
| Reciprocal shareholding in associate | | (322) | (503) |
| Total Equity | | 14,631 | 18,501 |

NOTES TO THE STATEMENT OF FINANCIAL POSITION (CONT'D)

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| 5. Carrying amount of investment in associate | | |
| Balance at the beginning of the financial year | 3,884 | 5,180 |
| Issue of shares in associate | - | - |
| Share of associate's net loss for the financial year | (1,679) | (1,296) |
| Balance at the end of the financial year | 2,205 | 3,884 |
| Reciprocal shareholding in associate | (322) | (503) |
| Carrying amount of investment in associate at end of the financial year | 1,883 | 3,381 |
| 6. Other financial assets | | |
| Listed shares - Other | 137 | 137 |
| Listed shares – Floating rate notes | - | 2,500 |
| Provision for diminution | (137) | (394) |
| Total | - | 2,243 |
| 7. Contributed equity | | |
| Movement in shares on issue | | |
| Balance at the beginning of the financial year | 63,616 | 63,616 |
| Issued during the year through the share purchase plan and placement | 3,527 | - |
| Balance at the end of the financial year | 67,143 | 63,616 |

Option over securities at end of financial year

| Grant date | Expiry date | Number of options on issue | Average option price per share |
|------------------|------------------|----------------------------|--------------------------------|
| 19 January 1999 | 30 November 2003 | 186,200 | \$5.34 |
| 8 February 2000 | 8 February 2005 | 100,000 | \$4.46 |
| 8 February 2000 | 8 February 2005 | 200,000 | \$6.24 |
| 8 February 2000 | 8 February 2005 | 100,000 | \$8.91 |
| 22 December 2000 | 22 December 2005 | 350,000 | \$4.00 |
| 28 February 2001 | 28 February 2006 | 232,020 | \$4.00 |
| Total | | 1,168,220 | |

STATEMENT OF CASH FLOWS
for the year ended 30 June 2003

| | Notes | 2003 \$'000 | 2002 \$'000 |
|---|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 4,859 | 4,617 |
| Payments to suppliers and employees | | (11,277) | (10,310) |
| Grant recovery | | 1,162 | 236 |
| Interest received | | 493 | 725 |
| Borrowing costs | | (13) | (6) |
| Other revenue received | | 14 | 527 |
| Net cash flows from/(used in) operating activities | 8 | (4,762) | (4,211) |
| Cash flows from investment activities | | | |
| Proceeds from sale of investments | | 2,091 | 651 |
| Purchase of property, plant and equipment | | (169) | (1,449) |
| Proceeds from sale of property, plant and equipment | | 27 | 27 |
| Net cash flows from/(used in) investing activities | 9 | 1,949 | (771) |
| Cash flows from financing activities | | | |
| Proceeds from issues of ordinary shares | | 3,653 | - |
| Payments of share issue costs | | (126) | - |
| Repayment of finance lease principal | | (14) | (39) |
| Net cash flows from/(used in) financing activities | 10 | 3,513 | (39) |
| Net increase/(decrease) in cash held | | 700 | (5,021) |
| Add opening cash brought forward | | 11,407 | 16,422 |
| Effect of exchange rate changes on cash | | (112) | 6 |
| Closing cash carried forward | | 11,995 | 11,407 |
| Reconciliation of cash assets | | | |
| Cash | | 6,374 | 2,378 |
| Short term deposits | | 5,621 | 9,029 |
| Total | | 11,995 | 11,407 |

NOTES TO THE STATEMENT OF CASH FLOWS

8. Cash flows used in operating activities

Net cash flows used in operations during the year increased by 13%. This is in line with the improved performance from commercial services, expanding research and development activities and a number of business development / corporate activities being pursued.

9. Cash flows from investment activities

Net cash flows from investments is attributable to the sale of the investment in the listed floating rate notes.

NOTES TO THE STATEMENT OF CASH FLOWS (CONT'D)

10. Cash flows from financing activities

Net cash flows from financing is attributable to the capital raising undertaken in May 2003.

ANALYSTS' DATA

| Key Data | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Revenue (\$'000) | 8,155 | 5,660 |
| EBITDA | (6,796) | (5,566) |
| EBIT | (7,578) | (6,156) |
| Loss before tax / revenue | (92.9%) | (108.8%) |
| Loss after tax / equity interests | (51.8%) | (33.2%) |
| EPS basic (cps) excluding associate entities current years loss | (24.2) | (19.9) |
| EPS basic (cps) | (31.1) | (25.2) |
| Liquidity ratio | 5.4:1 | 5.6:1 |
| Cash / Other Investments backing per share (cps) | 40 | 56 |
| NTA backing per share (cps) | 49 | 76 |

Investment in associate entity (Medigen Biotechnology Corporation)

| Balance date | December | December |
|---|----------|----------|
| Percentage held | 19.9% | 19.9% |
| Cross holding of Medigen in Progen equity | 10.8% | 13.3% |
| Dilution is due to the capital raising in May 2003, namely, the share purchase plan and placement | | |
| Share of associate losses per financial year | (1,679) | (1,296) |
| Associates contribution to EPS (cps) | (6.9) | (5.3) |

OTHER SIGNIFICANT INFORMATION

The directors see significant opportunities and challenges in the year ahead to:

- To consolidate and actively pursue an out licensing agreement based on the PI-88 clinical data package accumulated to date in various cancer clinical trials conducted in the United States of America, Australia, UK and Taiwan. This partnership seeks to engage a larger Pharma or Biotech company with the capabilities to accelerate development and move towards commercialisation outcomes;

- Continue development of our Drug Design capabilities in the novel glycobiology area by leveraging our expertise in the development of PI-88 and 10 years of experience in this area;
- To screen in-licensing opportunities to supplement the existing drug development pipeline. It is expected that a new project would be complementary to existing activities of the company and take advantage of our skilled base in clinical development. The company's pipeline would be further supplemented by new candidates developed within the Technology Platform;
- Increase revenue and profitability of our commercial business operations [Contract Services and Lifesciences]. Assuming favourable market conditions the commercial divisions plan to capitalize on trends and opportunities presented by expanding the critical mass of the business and/or growing our service reputation in respective businesses; and
- Assess funding opportunities to ensure that capital requirements are sufficient in facilitating realisation of corporate and operational objectives.

COMMENTARY ON RESULTS

EPS and dilution

Reference to the earnings for the year ended 30 June 2003, has been covered in the section "Results for announcement to the market". The earnings per share will be impacted by the dilution effect caused through the capital raising in May 2003. The EPS calculation is based on the weighted average, therefore, there was no impact on this financial year, because these shares were issued at the end of June 2003.

Returns to shareholders

Being a biotechnology company, the company in the foreseeable future will not be paying any dividends to its shareholders. However, it is part of our corporate mission and embedded in our strategic planning, to add value to the company for the benefit of our shareholders.

Significant features of Operating Performance

Increase in revenues and contributions from commercial services.
 Increase in productivity from operations.
 Focus on delivery of stated objects in the 2003 annual report.
 Prudent allocation of financial and human resources.

SEGMENT INFORMATION

The company operates predominately in the biotechnology industry. Its activities comprise the research, development, manufacture and marketing of a range of molecular biology products and the research and potential commercialisation of biopharmaceuticals.

The company operates predominately in Australia, however, does import and export some products.

| Business Segment | Research & Development | | Life Sciences | | Contract Manufacture | | Total | |
|---|------------------------|---------|---------------|--------|----------------------|--------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Sales to customers | - | - | 2,980 | 2,507 | 1,799 | 1,343 | 4,779 | 3,850 |
| Unallocated revenue | | | | | | | 3,376 | 1,810 |
| Total revenue | | | | | | | <u>8,155</u> | <u>5,660</u> |
| Segment results | (4,547) | (4,169) | 493 | 199 | 277 | 700 | (3,777) | (3,270) |
| Share of loss of associate entity accounted for using the equity method | | | | | | | (1,679) | (1,296) |
| Unallocated expenses | | | | | | | (2,122) | (1,590) |
| Operating loss | | | | | | | <u>(7,578)</u> | <u>(6,156)</u> |
| Segment assets | 645 | 905 | 1,239 | 745 | 1,293 | 1,570 | 3,177 | 3,220 |
| Unallocated assets | | | | | | | 14,041 | 17,662 |
| Total assets | | | | | | | <u>17,218</u> | <u>20,882</u> |
| Segment liabilities | (480) | (305) | (530) | (412) | (249) | (766) | (1,259) | (1,483) |
| Unallocated liabilities | | | | | | | (1,328) | (898) |
| Total liabilities | | | | | | | <u>(2,587)</u> | <u>(2,381)</u> |

The segment report above highlights the strong revenue growth seen within commercial services over the past two years. This trend is supported by the significant efforts made by the management and staff within the separate divisions. This is evident by the inroads made by each division within the biotechnology industry and the recognition gained for quality services.

The excellent growth achieved over the past years will level out in the foreseeable future, however, the company will continue to strive to increase the contributions made by commercial services in 2004.

As part of the company's strategic planning, research and development are expected to contribute revenue to the operating results through the process of commercialisation, e.g. including income from licensing out one of the compounds in human trials within the next twelve to eighteen months.

ANNUAL GENERAL MEETING

Annual General meeting will be held as follows:-

| | |
|--|--------------------|
| Place | Brisbane. |
| Date | 31 October 2003. |
| Time | 10.00 a.m. |
| Approximate date the annual report will be available | 30 September 2003. |

AUDIT STATUS

This report is based on accounts which are in the process of being audited, and there is no anticipated audit qualification.

Signed in accordance with a resolution of the Board.

A handwritten signature in blue ink, appearing to be 'L. Lee', with a stylized, cursive script.

L. Lee
Director
Brisbane

29 August 2003.