

AXON INSTRUMENTS, INC.
(ABN 090 106 844)
APPENDIX 4E (Rule 4.3A)
PRELIMINARY FINAL REPORT
for the year ended December 31, 2003

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to the year ended December 31, 2002)

	US\$'000	up/down	% movement
Revenues from ordinary activities	33,479	up	21.9%
Profit/(loss) from ordinary activities after tax attributable to members	1,074	up	movement was loss to profit
Net profit/(loss) for the period attributable to members	1,074	up	movement was loss to profit

Dividend information

The Company has not historically paid dividends and currently intends to retain earnings for use in the business.

	December 31, 2003	December 31, 2002
Net tangible asset backing	US\$0.083	US\$0.079

This report is based on the consolidated financial statements which have been audited, and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2003.

All amounts throughout this Appendix 4E are denominated in United States Dollars.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management and the board of directors of Axon Instruments, Inc. (the "Company") are pleased to report the consolidated results of the Company for the year ended December 31, 2003, including a brief financial summary. This report should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2003.

Profit and earnings per share

Net profit after tax for 2003 was \$1.1 million compared with a net loss of \$9.5 million for 2002. This result represents earnings of \$0.002 per share on a fully diluted basis compared to a loss of \$0.020 per share for the prior year.

Review of operations

Net Sales. Net sales for 2003 increased 22% to \$33.5 million compared with \$27.5 million in 2002. The increase in net sales was primarily due to the release of the PatchXpress™ automated parallel patch clamp system in September 2003 and the ImageXpress® automated cellular imaging and analysis system, released in January 2003. In addition, revenues were positively impacted by a full year's worth of sales of the Genepix® Personal 4100A microarray scanner, released in July 2002 and the April 2003 release of the Genepix Professional 4200A microarray scanner.

Gross Profit. Cost of sales consists primarily of raw material and component costs, manufacturing and supervisory labor, and manufacturing overhead costs. The increase in gross profit margin from 44.6% in 2002 to 52.9% in 2003 was primarily attributable to increased sales volume and improvements in inventory production scrap rates.

Research and development expenses. Research and development expenses consist primarily of salaries and related personnel costs, material cost of prototypes and test units, fees paid to consultants and outside service providers, and other expenses related to the design, development, testing, and enhancement of the Company's products. Research and development expenses in 2003 declined 31% to \$9.3 million from \$13.5 million in 2002. The primary reason for the reduction was the cost reductions effected in November 2002 with the intent of concentrating research and development attention on smaller numbers of significant projects most likely to yield the highest return on investment and the greatest near-term market potential.

Selling, general and administrative expenses. Selling, general and administrative expenses consist primarily of salaries and related personnel costs, marketing and promotional costs, rent and related facilities costs, and professional services such as accounting and legal fees. Selling, general and administrative expenses in 2003 were \$7.7 million, compared to \$7.8 million in 2002. The slight change in selling, general and administrative expenses was primarily attributable to decreases in marketing and promotional costs and salaries and related personnel costs, offset by increases in post-sale customer support costs and accounting fees.

Interest income. Net interest income in 2003 was \$0.3 million, compared to \$0.6 million in 2002. The decrease in net interest income was due to lower average cash, cash equivalent, and marketable securities balances as well as lower average interest rates during 2003 as compared to 2002.

Provision for income taxes. The provision for income taxes was \$32,820 in 2003, resulting in an effective income tax rate of 3%. The low provision for income taxes is a result of the Company's utilization of a portion of the net operating loss carryforward generated by the net loss in 2002.

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Cash flows. The Company's cash, cash equivalents, and marketable securities, such as state and municipal securities, were \$26.0 million as of December 31, 2003, compared to \$27.6 million as of December 31, 2002. The primary cause for the reduction in cash and marketable securities was an increase in accounts receivable due to increased revenues and an increase in inventory in anticipation of new product sales, offset by net income adjusted for non-cash items such as depreciation and amortization.

Outlook

The Company's financial performance in 2003 was very positive, with over 20% sales growth and a return to profitability. As part of the Company's strategy of continued rapid growth, management and the board of directors expect to focus on the following activities in 2004:

- Continue sales and marketing efforts in support of the newly launched PatchXpress, ImageXpress, and Genepix Professional 4200A products,
- Research and begin development of higher-throughput versions of both the PatchXpress and ImageXpress,
- Update and enhance mature cellular neuroscience products,
- Continue to enhance data analysis and bioinformatics software offerings,
- Continue to leverage existing expertise in cellular neuroscience, genomics, and cell-based screening and devote resources to continually research new developments in related fields, and
- Develop licensing and other strategic arrangements as well as assess growth potential through technology and business acquisitions.

As a result of implementing these strategies, the Company anticipates that 2004 will be a profitable year and that operating results will include:

- An increase in revenues due to a full year's sales of PatchXpress,
- A slight decline in gross profit margin due to changes in product mix,
- An increase in research and development expenses due to new product development, however research and development expenses as a percent of net sales are anticipated to decline,
- An increase in selling, general and administrative expenses due primarily to increased headcount and marketing and promotional costs, however selling, general and administrative expenses as a percent of net sales are anticipated to decline.