

PROBIOTEC ANNUAL REPORT 2013



## WHAT WE DO

PROBIOTEC IS A LEADING DEVELOPER, MANUFACTURER AND DISTRIBUTOR OF PRESCRIPTION AND OVER-THE-COUNTER (OTC) PHARMACEUTICALS AND CONSUMER HEALTH PRODUCTS IN AUSTRALIA AND GLOBAL MARKETS.

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# CHAIRMAN AND CEO'S LETTER TO SHAREHOLDERS

Dear Shareholder

On behalf of the Board of Directors, we are pleased to present this year's Annual Report.

Reflecting on what we said about the future of the Company this time last year, Board and Management are very comfortable that we are executing and delivering on a strategic plan for the business that will strengthen the company's financial position, reduce costs and improve margins. This time last year we said that we expected FY2013 to be a further stepping stone towards our goal of a stronger business, and that is exactly as it has been. Some initiatives that we outlined are taking longer than anticipated, but nevertheless they are all well underway.

Looking at those key initiatives that we previously foreshadowed:-

- (1) Contract manufacturing has grown significantly, being up 36% to \$23.7m, with further growth forecast. This can become a stable foundation to the business, generating secure margins without the associated risk of advertising and promotion cost. The FY2014 result for this division should be better than the previous year, with this trend expected to continue into the future.
- (2) A major investment for the business has been the upgrade and recommissioning of our protein fractionation plant in Jervois, South Australia. This time last year we anticipated commissioning sometime during the second half of FY2013, but this timetable ended up slipping by some 6 months, with full scale commercial production coming online in the first quarter of FY2014. However we can now look towards a meaningful contribution from this potentially lucrative division buoyed by record high prices for Lactoferrin prevailing at this time.
- (3) Last year we did foreshadow an increase in ranging of our branded pharmaceutical range, and again this has taken a little longer than we anticipated, but with the recently announced expanded collaboration with the Pharmacy Guild of Australia, a specific project and timetable will now assure us of growth in this part of our business, commencing in the second half of FY2014.

During the year we did successfully dispose of one of our minor non-core businesses, being the animal nutrition division of the company. This was a small but important step in streamlining the business to its core undertakings, reducing some stock and plant, reducing staff, and freeing up some cash. At the time of writing this report we anticipate that further asset sales will occur in the year ahead, which have the potential to significantly transform the debt and risk profile of the company.

Against the backdrop of the above, this year's profit result is very much seen as a result produced in a period of transition and not reflective of the future likely profile of the business. Suffice to say that the result was in the black, and the business was able to produce a \$5.4 million positive cash flow from operating activities. Debt did not go down as all of this cash flow was required for the capital project of installing the protein fractionation plant in South Australia. This project is now largely completed.

Probiotec's objective of being an Australian based manufacturer of renown in the pharmaceutical sector is a lofty one. Many companies have switched manufacturing or product sourcing offshore. However, this is producing the opportunity that Probiotec is well and truly seizing. Many companies would still much prefer to source critical pharmaceutical products locally and hence the continually rising demand on our contract manufacturing services. Your Board is therefore confident about the outlook for the business.

This said, it's been a tough couple of years inside the business, and demanding on staff and management to achieve the business transformation required. We look towards the FY2014 year and beyond with optimism that shareholders will see the improved performance that they expect from the business.

On behalf of the Board we would like to thank the entire management team and staff for their long hours and perseverance to the task required.



Maurice Van Ryn  
Chairman  
Probiotec Limited



Wayne Stringer  
Managing Director  
Probiotec Limited

# OUR PERFORMANCE

## SALES REVENUE

**\$67.3m**

Sales revenue from continuing operations grew 2%, with growth in contract manufacturing revenue the primary driver. The divestment of the Group's animal nutrition division during the year reduced sales from continuing operations by \$2.2 million.

## NPAT (From continuing operations)

**\$1.5m**

NPAT impacted by the current subdued retail climate, together with a range of adjustments made as a result of the ongoing strategic re-alignment of the Group. The Group continues to transition its business model towards a model that the directors believe will be both more secure and better able to deliver improving returns to shareholders.

## CASH FLOW FROM OPERATING ACTIVITIES

**\$5.4m**

The Group's cash flows from operating activities increased by 53.6% over the prior corresponding period. However, this cash flow was largely utilised to complete the upgrade and relocation of the Group's ADP Protein Plant.

## WINS FOR 2013

**Animal Nutrition sale** Sale of the Group's animal nutrition business completed in May 2013

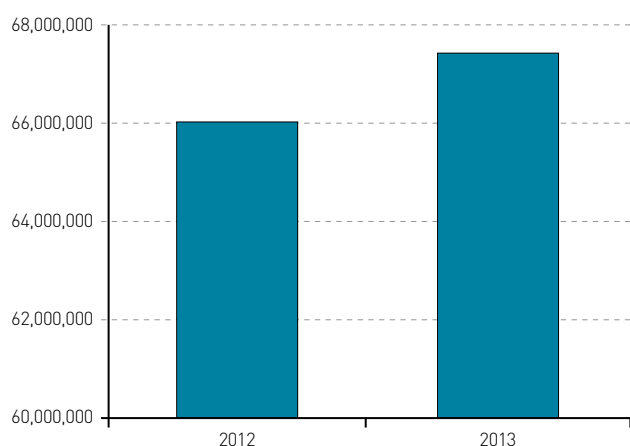
**Reduced cost base** Several operating units restructured, with a reduced cost base effective for the 2014 financial year

**ADP** ADP construction now completed with plant scheduled to commence full production in 1HY2014

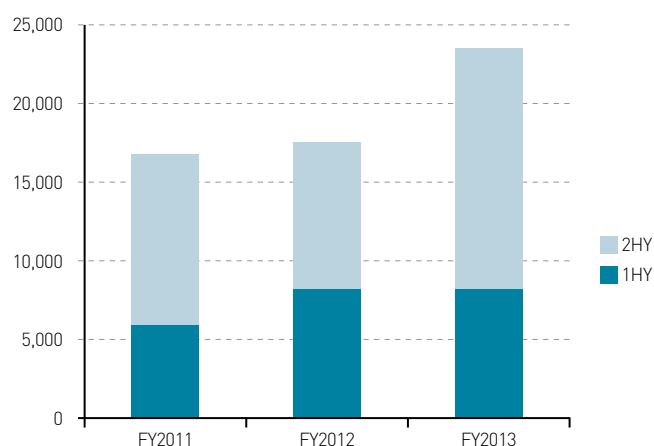
**Strong manufacturing** Contract manufacturing grew 35% for the year with ongoing growth expected

**Strengthened management team** Driving significant change and improvement across the business

## Sales Growth



## Growth in contract manufacturing (\$,000)



## PILLARS OF THE BUSINESS

The Group is continuing to focus on the three pillars of its business: Branded products, contract manufacturing and intellectual property development. Details on developments of each of these pillars are set out below.

### Branded Products

Sales in the Group's pharmaceutical and consumer health segment, comprising our traditional pharmaceutical ranges (including Gold Cross, David Craig, Lomotil and Vermox), weight loss and sport nutrition products performed consistently during the year. Sales revenue was \$35,445,162, a slight decline on the previous year's sales of \$35,706,162.

The continuing subdued economic conditions in the domestic retail environment continued to impact the sales of the Group's products. Pleasingly, sales of the Group's pharmaceuticals, weight loss and sports nutrition products all grew over the prior period, with this growth being offset by the transfer of the Group's Biosource brand to the contract manufacturing segment during the year (see contract manufacturing update for more detail).

The Group's export activities continue to focus primarily on its manufacturing and distribution businesses in the United Kingdom and Ireland. Export sales revenue fell 18.6% from the prior year to \$7,131,966, but recorded a profit of \$202,711 as opposed to \$5,591 in the prior year. This improved level of profitability was largely the result of the rationalisation and/or closure of a number of loss making operations and activities. The strength of the Australian dollar against both the Euro and Great Britain pound has continued to impact upon the profitability of this segment.

### Contract Manufacturing

The Group's contract manufacturing segment experienced a material increase in demand, with a greater level of focus and resources allocated to this segment. Sales revenue from contract manufacturing was \$23,729,543, an increase of 35.5% over the prior corresponding period. Encouragingly, the Group is continuing to experience strong demand in contract manufacturing and has a growing order book for the 2014 financial year and expects this segment to experience ongoing growth. The majority of contract manufacturing activity was on behalf of major pharmaceutical companies.

The integration of new contract manufacturing customers during the year required significant implementation costs. In order to support a material increase in the level of business, the Group invested in additional plant, warehousing and distribution infrastructure. However, these initial costs are expected to deliver material long term benefits and earnings to the Group.

The transfer of the Biosource brand from the pharmaceutical and consumer health segment (following the signing of a long term manufacturing and collaboration agreement), has resulted in an increase in the revenue associated with this brand<sup>1</sup>.

The Group has now begun to develop a contract manufacturing service from its Ireland production factory, with initial orders received and sales enquiries growing steadily, albeit off a low base.

### Intellectual Property Development

The Group continues to progress its intellectual property portfolio, most notably its product development portfolio and its ADP Protein Plant (see following page for more details).

During the year the Group continued to research and develop a range of pharmaceutical products for release in future years. As at 30 June 2013, the Group currently has three clinical trials in progress together with 16 pharmaceutical products in various stages of development. The directors believe that this pipeline of products will help to secure additional long term earnings and value to shareholders.

<sup>1</sup> For the 2013 financial year, total sales for Biosource of \$2,634,156 were recorded in the contract manufacturing segment. In the prior year, total sales of \$1,525,336 had been recorded in the pharmaceutical and consumer health segment (which have subsequently been re-allocated to the contract manufacturing segment for comparative purposes).



# THE FUTURE

“The directors believe that the initiatives undertaken over the past two years will form the foundation for the Group to achieve improved levels of growth and profitability in the future.”

## KEY OPPORTUNITIES AND BUSINESS INITIATIVES FOR THE COMING YEAR

- **Re-establishment of ADP Plant:** Once operational, the ADP protein plant is forecast to deliver strong cash flow and earnings to the Group as well as driving our long term product development pipeline. This upgrade and relocation is now complete with full production set to commence in 1HY2014. The ADP Plant will produce the dairy protein fraction Lactoferrin along with the world's only dairy based high purity Immunoglobulins. The Group proposes to sell both Lactoferrin and Immunoglobulins into the infant nutrition, human nutrition and pharmaceuticals markets, as well as continuing to research and develop a range of exciting pharmaceutical applications. The continued strengthening of demand for Lactoferrin has seen a significant rise in the market price for this protein fraction.
- **Growth in pharmaceutical manufacturing:** As intimated earlier in this report, the Group has experienced a significant increase in demand for its contract manufacturing services, which is forecast to provide a material increase in the revenue of this division in FY14. In addition to this, the commencement of contract manufacturing from the Group's Ireland plant is expect to complement the ongoing domestic contract manufacturing growth.
- **Streamlining of operations:** The Group continues to review and implement a range of initiative to streamline its operations and reduce both the cost base of the business together with its operational complexity.

## ADP Protein Plant progress



## ADP Protein Plant progress





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# CORPORATE GOVERNANCE

## 1. Probiotec's approach to corporate governance

### Overview

The Board is committed to maintaining a high standard of corporate governance. The Board believes that its corporate governance values and behaviours underpin the company's everyday activities to ensure transparency, fair dealing and protection of the interests of stakeholders. Consistent with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve its governance practices; and
- monitor developments in best practice corporate governance.

In Australia, we have examined the 'Principles of Good Corporate Governance and Best Practice Recommendations' first published in March 2003, the second edition published in August 2007 by the Australian Securities Exchange's Corporate Governance Council, the Corporate Governance Principles and Recommendations with 2010 Amendments, the Commonwealth Government's CLERP 9 legislation and the Australian Standard AS8000 Good Governance Principles. We have analysed these developments and adapted practices where appropriate to ensure Probiotec remains at the forefront in protecting stakeholder interests.

The Board's approach has been to be guided by the principles and practices that are in our stakeholders' best interests while ensuring full compliance with legal requirements.

### Compliance with the ASX best practice recommendations

Probiotec considers its governance practices comply with all ASX best practice recommendations. As required by the ASX best practice recommendations, Probiotec has copies of each corporate governance practice described below on its website at [www.probiotec.com.au](http://www.probiotec.com.au).

Probiotec also publishes on its website the annual reports, profit announcements, CEO and executive briefings, economic updates, notices of meeting, media releases and meeting transcripts.

## 2. Date of this statement

This statement reflects our corporate governance policies and procedures as at 1 October 2013.

## 3. The Board of Directors

### Membership and expertise of the Board

The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, with details of individual Director's backgrounds, is set out in the attached Directors report.

### Board role and responsibility

The Board is accountable to shareholders for Probiotec's performance. The Board has formalised its roles and responsibilities into a Charter, which defines the matters that are reserved for the Board and those that the Board has delegated to management.

In summary, the Board's responsibilities include:

- providing strategic direction and approving corporate strategic initiatives;
- selecting and evaluating future Directors, the Chief Executive Officer ('CEO') and the Chief Financial Officer ('CFO');
- planning for Board and executive succession;
- setting CEO and Director remuneration within shareholder approved limits;
- approving Probiotec's budget and monitoring management and financial performance;
- considering and approving Probiotec's Annual Financial Report and the interim and final financial statements;
- approving Probiotec's risk management strategy, monitoring its effectiveness and maintaining a direct and ongoing dialogue with Probiotec's auditors and regulators; and
- considering and reviewing the social and ethical impact of Probiotec's activities, setting standards for social and ethical practices and monitoring compliance with Probiotec's social responsibility policies and practices.

The Board has delegated to management responsibility for:

- developing and implementing corporate strategies
- making recommendations on significant corporate strategic initiatives;
- maintaining an effective risk management framework and keeping the Board and market fully informed about material risks;
- developing Probiotec's annual budget, recommending it to the Board for approval and managing day-to-day operations within the budget and in accordance with standards for social and ethical practices which have been set by the Board; and
- making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles.

## CORPORATE GOVERNANCE (continued)

**Board size and composition**

The Board determines its size and composition, subject to the limits imposed by Probiotec's Constitution, a copy of which is available on Probiotec's website. The Constitution requires a minimum of three and a maximum of seven Directors. At the date of this report, there are five Non-executive Directors and two Executive Director on the Board.

**The selection and role of the Chairman**

The Chairman is selected by the Board.

The current Chairman, Maurice Van Ryn, is a Non-executive independent Director appointed by the Board. He has been a Director and Chairman of Probiotec since July 2006. The Chairman is a member of the Audit and Risk Committee.

**Directors' independence**

The Board assesses each of the Directors against specific criteria to decide whether they are in a position to exercise independent judgement.

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each Director's individual circumstances rather than general materiality thresholds.

In assessing independence, the Board considers whether the Director has a business or other relationship with Probiotec, directly or as a partner, shareholder or officer of a company or other entity that has an interest, or a business or other relationship, with Probiotec or another Probiotec group member.

It is the Board's view that each of its Non-executive Directors, Maurice Van Ryn, Graham Buckeridge, Robert (Max) Johnston, Richard Kuo and Robin Tedder is independent.

**Meetings of the Board and their conduct**

The Board meets formally approximately twelve times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. The Chairman and the CEO establish meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year. In addition to its formal meetings, the Board may also undertake relevant workshops.

These meetings will include workshops on executive and senior management succession planning, corporate governance, Probiotec's risk/reward approach, customer experience and segmentation projects and other major strategic initiatives.

Directors are always encouraged to participate with a robust exchange of views and to bring their independent judgements to bear on the issues and decisions at hand.

Executive management regularly attends Board meetings and are also available to be contacted by Directors between meetings. The Board also meets without executive management (other than the CEO and any Executive Directors) at each meeting. The Board meets without the CEO and any Executive Directors once a year or as required.

**Review of Board performance**

The Board regularly reviews its overall performance, as well as the performance of Committees, individual Directors and executive management. The performance of Non-executive Directors (including the Chairman) is subject to annual peer and executive management review. The process can include written surveys of Directors, the Company Secretary and a selection of Group Executives. The survey results are independently collated and the Chairman formally discusses the results with individual Directors and Committee chairs.

**Retirement and re-election of Directors**

Probiotec's Constitution states that one-third of our Directors must retire each year. A Director will hold office until such time as they vacate the office or are removed under the Constitution. The Constitution also states that any Director who has been appointed during the year must retire at the next annual general meeting. Eligible Directors who retire each year may offer themselves for re-election by shareholders at the next annual general meeting.

The Board Nomination and Remuneration Committee evaluates the contribution of retiring Directors prior to the Board endorsing their candidature.

**Board access to information and advice**

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. The Board collectively, and each Director individually, has the right to seek independent professional advice at Probiotec's expense to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in its absence, Board approval may be sought.

## 4. Board committees

### Board committees and membership

There are currently two Board Committees whose powers and procedures are governed by Probiotec's Constitution and the relevant Committee's Charters, as approved by the Board.

The two Board Committees and their membership are set out below:

- Audit and Risk Management Committee
- Nomination and Remuneration Committee

Other separate Committees, such as the Corporate Social Responsibility Committee, may be established from time to time to consider matters of special importance.

### Committee Charters

The roles and responsibilities of each Committee are set out in the Committee Charters.

### Committee procedures

#### *Operation of the Committees and reporting to the Board*

The Board Committees meet twice yearly in conjunction with the release of financial results or more frequently as circumstances dictate. Each Committee is entitled to the resources and information it requires, including direct access to employees and advisers. The CEO, senior executives and other employees are invited to attend Committee meetings. All Directors receive all Committee papers and can attend all Committee meetings.

#### *Composition and independence of the Committees*

Committee members are chosen for the skills, experience and other qualities they bring to the Committees. All committees are currently composed of a majority of independent Non-executive Directors.

#### *How the Committees report to the Board*

As soon as possible following each Committee meeting, the Board is given a verbal report by each Committee Chair and all Committee minutes are tabled at Board meetings.

#### *How Committees' performance is evaluated*

The performance of Committees is discussed and reviewed initially within each Committee and then reviewed as part of the Board's performance review. The performance of each member of the Committees is evaluated as part of the performance review of each Director.

## Board Audit and Risk Management Committee

### *Role of the Committee*

The Board Audit and Risk Management Committee (ARM) will:

- be the focal point of the communication between the Board, management and the external auditor;
- recommend and supervise the engagement of the external auditor and monitor auditor performance;
- review the effectiveness of management information and other systems of internal control;
- review all areas of significant credit, market, operational and compliance risk and arrangements in place to contain those to acceptable levels;
- review significant transactions that are not a normal part of the Company's business;
- review the year end and interim financial information and ASX reporting statements;
- monitor the internal controls and accounting compliance with the Corporations Act, ASX Listing Rules, review external audit reports and ensure prompt remedial action;
- review the Company's financial statements (including interim reports) and accounting procedures; and
- review and approve the framework for the management of operational risks including compliance with the provisions of the Therapeutic Goods Administration Act (TGA), requirement of the Australian Quarantine Inspection Service (AQIS) and other relevant legislation.

### *Integrity of the financial statements*

ARM considers whether the accounting methods applied by management are consistent and comply with accounting standards and concepts. ARM reviews and assesses any significant estimates and judgements in financial reports and monitors the methods used to account for unusual transactions.

In addition it assesses the processes used to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial and non-financial information.

### *External audit*

ARM is responsible for making recommendations to the Board concerning the appointment of our external auditors and the terms of their engagement. ARM reviews the performance of the external auditors and annually reviews policy on maintaining independence of the external auditor. The independent external auditor reports directly to ARM and the Board. ARM meets with the external auditor in the absence of management with ARM members being able to contact the external auditor directly at any time.

## CORPORATE GOVERNANCE (continued)

**Operational Risk**

ARM reviews the appropriateness of the framework adopted for managing operational risk and reviews operational risk issues and action plans to address control improvement areas.

**Compliance with legal and regulatory requirements**

ARM ensures conformity with applicable legal and regulatory requirements and the Code of Conduct. ARM also establishes procedures for the receipt, retention and treatment of complaints, including accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters.

ARM also discusses with management and the external auditor correspondence with regulators or government agencies and published reports which raise material issues. ARM discusses with the Quality Control Manager matters that may have a material impact on product regulatory compliance and with the Company Secretary matters that have a material impact on the financial statements or the compliance with reporting and disclosure policies. The General Manager - Quality reports directly to the Chairman on matters covered by the Therapeutic Goods Administration Act (TGA) and the Australian Quarantine Inspection Service (AQIS) and forwards copies of all matters covered under either TGA or AQIS reports to the chair of ARM.

**Composition of ARM**

ARM membership is three Non-executive, independent Directors who possess an understanding of the industry in which Probiotec operates: Richard Kuo (Chairman) (who is financially literate), Graham Buckeridge (who has financial expertise) and Maurice Van Ryn (who has financial expertise).

**Board Nomination and Remuneration Committee****Role of the Committee**

The Board Nomination and Remuneration Committee (NRC) develops and reviews policies on:

- Director tenure;
- Board composition, strategic function and size;
- eligibility criteria for nominating Directors;
- the effectiveness of the Board and Board committees;
- makes recommendations to the Board on the CEO's remuneration;
- approves the reward levels for our senior management group;
- approves merit recognition arrangements and long and short term incentive arrangements; &
- makes recommendations to the Board on Directors' fees.

NRC periodically reviews our criteria for appointing Directors and considers and recommends to the Board Directors who are

retiring by rotation, candidates to be nominated as Directors and reviews periodically the process for orientation and education of new Directors.

The CEO determines the remuneration packages for the senior executives of the Company in accordance with compensation guidelines set by the Board. The Board remuneration policy has been developed to ensure that remuneration packages properly reflect each person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

NRC may engage independent remuneration consultants to ensure that our pay and reward practices are consistent with the market practice.

**Composition of NRC**

NRC membership is: Robert (Max) Johnston (Chairman), Graham Buckeridge and Wayne Stringer.

**Board Corporate Social Responsibility Committee****Role of the Committee**

A separate Board Corporate Social Responsibility Committee (CSR) has not been formed. These matters are considered by the Board who review the social and ethical impacts of our policies and practices and to oversee initiatives to enhance Probiotec's reputation as a socially responsible corporate citizen. CSR matters are monitored for compliance with Probiotec's published social responsibility policies and practices to ensure Probiotec meets its obligations to its stakeholders. Details of Probiotec's corporate responsibility objectives are addressed in section 8.

**5. Audit governance and independence****Approach to audit governance**

Best practice in financial and audit governance is changing rapidly. The Board is committed to three basic principles:

- Probiotec must produce true and fair financial reports;
- its accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies; and
- the external auditors are independent and serve shareholder interests by ensuring that shareholders know Probiotec's true financial position.

**Engagement and rotation of external auditor**

Probiotec's independent external auditor is Moore Stephens (MS). MS were appointed in 2012 in accordance with the provisions of the Corporations Act.

The Board has adopted a policy that the lead signing and review audit partners' responsibilities can be performed by the same person for 5 years, with the option to extend this period by a further 2 years under certain circumstances. The present lead



MS partner for Probiotec's audit is Nick Michael. The Board also requires a minimum five-year 'cooling off' period before an audit partner is allowed back onto the audit team.

### **Certification and discussions with external auditor on independence**

The Board Audit and Risk Management Committee (ARM) requires the external auditor to confirm that they have maintained their independence.

Probiotec's external auditor gives annual assurance to ARM and to the Board that they have complied with the independence standards, promulgated by regulators and professional bodies. Periodically ARM meets separately with the external auditor.

### **Relationship with external auditor**

Probiotec's current policies on employment and other relationships with our external auditor are:

- the audit partners and any audit firm employee on the Probiotec audit are prohibited from being an officer of Probiotec;
- an immediate family member of an audit partner or any audit firm employee on the Probiotec audit is prohibited from being a Director or an officer in a significant position at Probiotec;
- a former audit firm partner or employee on the Probiotec audit is prohibited from becoming a Director or officer in a significant position at Probiotec for at least five years and after the five years, can have no continuing financial relationship with the audit firm;
- members of the audit team and firm are prohibited from having a business relationship with Probiotec or any officer of Probiotec unless the relationship is clearly insignificant to both parties;
- the audit firm, its partners, its employees on the Probiotec audit and their immediate family members are prohibited from having loans or guarantees with Probiotec;
- the audit firm, its partners, its employees on the Probiotec audit and their immediate family members are prohibited from having a direct or material indirect investment in Probiotec;
- officers of Probiotec are prohibited from receiving any remuneration from the audit firm;
- the audit firm is prohibited from having a financial interest in any entity with a controlling interest in Probiotec; and
- the audit firm engagement team in any given year cannot include a person who had been an officer of Probiotec during that year.

### **Restrictions on non-audit services by the external auditor**

The external auditor is not able to carry out the following types of non-audit services for Probiotec:

- preparation of accounting records;
- information technology systems design and implementation;
- valuation services and other corporate finance activities;
- internal audit services;
- temporary senior staff assignments or management functions;
- legal services;
- litigation services;
- actuarial services; and
- recruitment services for senior management.

For all other non-audit services, use of the external audit firm must be assessed in accordance with Probiotec's policy requiring an independence assessment be done by the business manager requiring the service. The approval of the ARM Chairman must also be obtained.

### **Attendance at Annual General Meeting**

Probiotec's external auditor attends the annual general meeting and is available to answer shareholder questions.

## **6. Controlling and managing risk**

### **Approach to risk management**

Taking and managing risk are central to business and to building shareholder value. Probiotec's approach is to identify, assess and control the risks which affect its business. This enables the risks to be balanced against appropriate rewards for the taking and managing of the risks. The risk management approach links Probiotec's vision and values, objectives and strategies, and procedures and training.

Probiotec recognises three main types of risk:

- credit risk, being the risk of financial loss from the failure of customers to honour fully the terms of their contract;
- market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or our liquidity and funding profiles; and
- operational and compliance risk, which arises from inadequate or failed internal processes, people and systems or from external events and include compliance with regulations that govern Probiotec's work practices and information technology.

These risk categories are interlinked and therefore we attempt to take an integrated approach to managing them through the work of the Board Audit and Risk Management Committee (ARM) including copies of all TGA reports issued by the General Manager – Quality to the Chairman.

## CORPORATE GOVERNANCE (continued)

**Risk management roles and responsibilities**

ARM is responsible for approving and reviewing Probiotec's risk management strategy and policy. Executive management is responsible for implementing ARM-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of Probiotec's activities.

**CEO and CFO assurance**

The Board receives regular reports about the financial condition and operational results of Probiotec and its controlled entities.

The CEO and the CFO periodically provide formal statements to the Board that in all material respects:

- the company's financial statements present a true and fair view of Probiotec's financial condition and operational results, and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

**7. Remuneration framework****Overview**

Probiotec has a robust framework in place to ensure that the level and composition of remuneration is sufficient and reasonable and linked to performance. Details of framework and policies and practices are set out in the Directors' Report including a description of the broad structure and objectives of the remuneration philosophy and the measures used to continually link reward to performance.

**Non-executive Directors**

Non-executive Directors' fees and payments are reviewed annually by the Board. The Board may access the advice of independent remuneration consultants to ensure Non-executive Directors' fees and payments are appropriate and in line with the market.

**Executives**

The objective of Probiotec's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework is designed to follow best practice for the alignment of executive reward with shareholder value as measured by economic profit.

**Equity-related reward and performance plans overview**

All equity-related reward and performance plans are reviewed and assessed by the Board Nomination and Remuneration Committee before considered and approved by the Board.

**8. Corporate social responsibility****Approach to corporate social responsibility**

Probiotec's aim is to manage its business in a way that produces positive outcomes for all stakeholders and maximises economic, social and environmental value simultaneously. In doing so, Probiotec accepts that the responsibilities flowing from this go beyond both strict legal obligations and just the financial bottom line.

Transparency, the desire for fair dealing, responsible treatment of staff and of customers, and positive links into the community underpin our everyday activities and corporate social responsibility practices.

Probiotec's approach reflects the many legal, regulatory and prudential requirements applying to our industry.

**Probiotec's Code of Conduct and responsibility codes**

Probiotec's Code of Conduct applies to all Directors, executives, management and employees without exception. The Code governs workplace and human resource practices, risk management and legal compliance and is reviewed periodically and has been specifically reviewed to reflect the ASX best practice recommendations.

Beyond the Code of Conduct, Probiotec has a series of further responsibility policies and codes including:

- Securities Trading policy;
- Market Disclosure policy;
- Whistleblower Protection policy;
- Diversity policy; and
- Corporate Social Responsibility policy.

**Compliance policy and practices**

Probiotec's compliance approach focuses on: ensuring strict adherence to all laws and regulations; maintaining the quality control of practices and processes; identifying any weaknesses; and moving to fix any gaps while enhancing the processes and practices.

A separate compliance governance framework operates involving the Board Audit and Risk Management Committee (ARM), to the General Manager - Quality and Company Secretary (who both report regularly to ARM), and individual line businesses. The prime responsibility for compliance resides with line management, who are required to demonstrate that they have effective processes in place consistent with Probiotec's compliance principles and practices.

## Concern reporting and whistle blowing

Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not be in accord with the Code of Conduct, Securities Trading Policy, other Probiotec policies, or other regulatory requirements or laws.

Concerns can be raised directly with senior management through the concern raising process, including the CEO and CFO's intranet site or via the CEO's telephone hotline. Concerns can also be raised anonymously by phone and online through the concern reporting system, and are directed to the General Manager - Quality in relation to products and operational matters, and to the Company Secretary in relation to financial matters. This concern reporting system protects individuals who, in good faith, report any apparent or actual violations of our codes. The concern reporting system is being reviewed against the Australian standard AS 8004 (Whistleblower protection programs).

## Securities trading policy

Directors and employees are subject to restrictions under the law relating to dealing in Probiotec's securities if they are in possession of inside information. Inside information is information that is not generally available and, if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities of the company. In addition and subject always to the above legal restrictions, Probiotec has policies in place which restrict the dates when Directors (and employees who have access to inside information) can deal in Probiotec's securities.

The key aspects of the policy are:

- Trading whilst in the possession of price sensitive information is prohibited.
- Trading is permitted without approval in the 6 week period after the release to the ASX of the half-yearly and annual results, the end of the AGM or at any time the Company has a prospectus open, but only if they have no inside information and the trading is not for short term or speculative gain.
- Trading in other circumstances is only permitted if the person is personally satisfied that they are not in possession of inside information and they have obtained the requisite approval. Permission will be given for such trading only if the approving person is satisfied that the transaction would not be contrary to law, for speculative gain or to take advantage of inside information.

## Diversity policy

The Board adopted a diversity policy in September 2012.

Probiotec aims to provide an environment in which all employees have equal access to opportunities at work, whilst upholding the principle of meritocracy at all times.

Probiotec believes that fostering diversity at all levels allows the Group to provide greater alignment to customer needs, improves the creativity and innovation of leadership teams, and supports the development of an enhanced talent pipeline for key and future roles by enabling access to a broader pool of talent.

Probiotec strives to create a work environment free of discrimination and harassment, regardless of their gender, age, race, disability, sexual orientation, cultural background, religion, family responsibilities or any other area of potential difference.

The key objectives of the policy are:

- Foster an inclusive culture;
- Improve talent management;
- Enhance recruitment practices; and
- Ensure pay equity.

As at 30 June 2013, the Probiotec Group had the following female participation (%) rates:

Probiotec Limited non-executive directors	0
Senior executive positions	30
Other management and professional roles	44
Total workforce	45

## Market disclosure policy and practices

Probiotec is committed to giving all shareholders equal access to material information about our activities, and to fulfil continuous disclosure obligations to the broader market.

The Board-approved market disclosure policy governs how Probiotec communicates with shareholders and the market.

This policy is designed to ensure compliance with ASX Listing Rules continuous disclosure requirements so as to ensure any information that a reasonable person would expect to have a material effect on the price of Probiotec's securities is disclosed.

The CEO is responsible for making decisions on what should be disclosed publicly under the market disclosure policy, and for developing and maintaining relevant guidelines, including guidelines on information that may be price sensitive.

The Company Secretary has responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules, and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

# DIRECTOR'S REPORT

The directors submit the financial report of Probiotec Limited and its controlled entities ("the Group") for the financial year ended 30 June 2013.

## Directors

The names of the directors in office at any time during or since the end of the year are:

Maurice Van Ryn	<i>Non-Executive Chairman</i>
Charles Wayne Stringer	<i>Executive Director</i>
Wesley Stringer	<i>Executive Director</i>
Graham Harry Buckering	<i>Non-Executive Director</i>
Richard David Kuo	<i>Non-Executive Director</i>
Robert Maxwell Johnston	<i>Non-Executive Director</i>
Robin Tedder	<i>Non-Executive Director</i> <i>(Appointed 1 October 2012)</i>

Directors have been in office to the date of this report unless otherwise stated.

## Company Secretary

The name of the company secretary in office at any time during or since the end of the year was:

Jared Stringer

The company secretary has been in office to the date of this report unless otherwise stated.

## Principal Activities

The Group's principal activities in the course of the financial year were the development, manufacture and sale of pharmaceuticals, foods and nutraceutical products in Australian and international markets.

## Operating Results

The consolidated profit of the Group attributable to the shareholders for the financial year was \$596,869 (2012: \$1,249,380).

## Dividends

No dividend has been declared or paid in regards to the financial year ended 30 June 2013 (2012: \$nil).

## Operating and financial review

### Overview of results

For the year ended 30 June 2013, the Group generated sales revenue from continuing operations of \$67,342,884, an increase of 2.0% on the previous financial year. The Group's net profit attributable to members for the financial year from continuing operations was \$1,472,486, compared to the previous financial year of \$2,229,250. At a statutory reported level, the Group's

net profit attributable to members for the financial year was \$596,869, compared to the previous financial year profit of \$1,249,380.

The Group's statutory net profit attributable to members for the financial year of \$596,869 was largely impacted by two issues:

- First, the Group has been experiencing pressure on its operating margins in the current subdued retail climate and, while sales revenue has been maintained, margins have been negatively affected. Lower margins have resulted from changes in the Group's sales mix together with margin contraction in the Group's consumer health products.
- Secondly, a range of adjustments have been made as a result of the ongoing strategic re-alignment of the Group. These adjustments have resulted from numerous initiatives being implemented to improve the strategic focus and business operations of the Group. More detail on these initiatives and their impact for the year is set out below.

Whilst the result for the year is disappointing, the Group continues to transition its business towards a model that the directors believe will be both more secure and better able to deliver improving returns to shareholders. To this end, the directors believe that the initiatives undertaken over the past two years will form the foundation for the Group to achieve improved levels of growth and profitability in the future.

The Group is continuing to focus on the three pillars of its business: Contract manufacturing, branded products and intellectual property development. Details on developments of each of these pillars are set out below.

### Overview of operations

During the year, the Group continued to complete initiatives identified in the strategic review announced in June 2011. Most notably, the Group has:

- fully divested its Animal Nutrition business, including the sale of all brands and associated business assets; and
- restructured several operating units within the business, with a reduced cost base effective for the 2014 financial year.

These initiatives resulted in a range of adjustments to the financial statements for the year ended 30 June 2013, including a loss from discontinued operations of \$875,617. Importantly, these initiatives are expected to provide improvements in the Group's ability to generate attractive earnings and cash flow from its ongoing operations in the 2014 financial year.

Numerous additional initiatives to further streamline the business and eliminate underperforming business units are yet to be completed but are continuing to be reviewed and progressed. Further details on these initiatives will be provided when the Group is in a position to do so.

## Segment Results

### Pharmaceuticals and consumer health

Sales in the Group's pharmaceutical and consumer health segment, comprising our traditional pharmaceutical ranges (including Gold Cross, David Craig, Lomotil and Vermox), weight loss and sport nutrition products performed consistently during the year. Sales revenue was \$35,445,162, a slight decline on the previous year's sales of \$35,706,162.

The continuing subdued economic conditions in the domestic retail environment continued to impact the sales of the Group's products. Pleasingly, sales of the Group's pharmaceuticals, weight loss and sports nutrition products all grew over the prior period, with this growth being offset by the transfer of the Group's Biosource brand to the contract manufacturing segment during the year (see below).

### Contract Manufacturing

The Group's contract manufacturing segment experienced a material increase in demand, with a greater level of focus and resources allocated to this segment. Sales revenue from contract manufacturing was \$23,729,543, an increase of 35.5% over the prior corresponding period. Encouragingly, the Group is continuing to experience strong demand in contract manufacturing and has a growing order book for the 2014 financial year and expects this segment to experience ongoing growth. The majority of contract manufacturing activity was on behalf of major pharmaceutical companies.

The integration of new contract manufacturing customers during the year required significant implementation costs. In order to support a material increase in the level of business, the Group invested in additional plant, warehousing and distribution infrastructure. However, these initial costs are expected to deliver material long term benefits and earnings to the Group. The transfer of the Biosource brand from the pharmaceutical and consumer health segment (following the signing of a long term manufacturing and collaboration agreement), has resulted in an increase in the revenue associated with this brand<sup>1</sup>.

### Intellectual Property Development

The Group continues to progress its intellectual property portfolio, most notably its product development portfolio and its ADP Protein Plant (see below).

During the year the Group continued to research and develop a range of pharmaceutical products for release in future years. As at 30 June 2013, the Group currently has three clinical trials in progress together with 16 pharmaceutical products in various stages of development. The directors believe that this pipeline of products will help to secure additional long term earnings and value to shareholders.

### Additives and Nutrition

Sales in the nutritional products segment declined 27.0% on the prior corresponding period to \$3,275,289. This decline was primarily a result of the divestment of the Group's animal nutrition brands and associated business assets, as outlined earlier.

### Export activities

The Group's export activities continue to focus primarily on its manufacturing and distribution businesses in the United Kingdom and Ireland. Export sales revenue fell 18.6% from the prior year to \$7,131,966, but recorded a profit of \$202,711 as opposed to \$5,591 in the prior year. This improved level of profitability was largely the result of the rationalisation and/or closure of a number of loss making operations and activities. The strength of the Australian dollar against both the Euro and Great Britain pound has continued to impact upon the profitability of this segment. The Group has now begun to develop a contract manufacturing service from its Ireland production factory, with initial orders received and sales enquiries growing steadily, albeit off a low base.

### ADP Project update

Last year the Group entered into an agreement with United Dairy Power Pty Ltd (UDP) to relocate its protein fractionation plant (ADP Plant) to Jervois in South Australia, and recommence production of whey derived pharmaceutical grade dairy proteins through its Australian Dairy Protein subsidiary (ADP). This relocation is now complete with final commissioning trials currently nearing completion with commercial production to begin immediately upon commissioning.

The ADP Plant will produce the dairy protein fraction Lactoferrin along with the world's only dairy based high purity Immunoglobulins. The Group proposes to sell both Lactoferrin and Immunoglobulins into the infant nutrition, human nutrition and pharmaceuticals markets, as well as continuing to research and develop a range of exciting pharmaceutical applications. The continued strengthening of demand for Lactoferrin has seen a significant rise in the market price for this protein fraction.

### Cash flow and gearing

For the year ended 30 June 2013, the Group generated \$5,441,947 in cash flow provided by operating activities, an increase of 53.6% over the prior corresponding period. Total interest bearing liabilities net of cash, as at 30 June 2013 was \$26,094,605, an increase of 10.4% from the same date in the previous year. The increased level of debt level in the Group is largely a result of additional debt facilities utilised in the upgrade and re-establishment of the ADP Protein Plant (see below for further details). It is a priority of the directors to materially reduce the level of debt in the Group to more conservative levels during the 2014 financial year. The directors believe that this is achievable as

<sup>1</sup> For the 2013 financial year, total sales for Biosource of \$2,634,156 were recorded in the contract manufacturing segment. In the prior year, total sales of \$1,525,336 had been recorded in the pharmaceutical and consumer health segment (which have subsequently been re-allocated to the contract manufacturing segment for comparative purposes).



## DIRECTOR'S REPORT (continued)

major planned capital expenditure programs are now largely complete and cash flow is expected to improve due to:

- the business improvement initiatives referred to in this report increasing operating cash flows; and
- ADP commencing commercial operations and contributing to cash flow.

### Significant Changes in State of Affairs

Significant changes in the state of affairs of the Group comprised the continued implementation of the Group's strategic review and associated activities as outlined in the review of operations and expanded upon in note 6 of the financial report for the year ended 30 June 2013. There was no other significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto and elsewhere in the financial report of the company and its controlled entities for the year ended 30 June 2013.

### Significant After Reporting Date Events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### Future Developments

The Group will continue to operate its business consistent with its stated business strategy of growing both its pharmaceutical and nutritional/nutraceutical business segments. The Board will continue to monitor the progress of the business improvement initiatives and the intended improvement in the Group's operating and financial performance. Should further decisions and actions become necessary, then these will be made and within the framework of growing both profitability and cash flow of the Group.

### Environmental Issues

The Group monitors its environmental legal obligations and has its own self imposed policies. We believe that the Group complies with all aspects of the environmental laws.

### Occupational Health and Safety

The Group's Occupational Health and Safety Committee meet monthly and monitors the business by conducting regular audits of the premises. Any safety matters raised either by staff, the audits or from an investigation of any workers' compensation claims are reviewed and, where appropriate, changes made to operating procedures. Staff are encouraged to make safety suggestions to their departmental representatives. All committee members are given the necessary training for the position.

### Directors' Benefits

No director has received or become entitled to receive a benefit other than directors' remuneration. Full details of the level of remuneration received by Directors can be found in the Remuneration Report on page 21.

### Meetings of Directors

Probiotec Limited became a public company on 17th February 2006 and listed on the Australian Stock Exchange on the 14th November 2006. Directors hold meetings every month. The board also comprises the Audit and Risk Management and Remuneration and Nominations Sub-Committees. The number of meetings of the company's board of directors held during the year ended 30 June 2013, and the numbers of meetings attended by each director were:

Director	Board of Directors Meetings		Audit & Risk Management Committee meetings		Remuneration & Nominations Committee meetings	
	No. Held*	No. Attended	No. Held**	No. Attended	No. Held**	No. Attended
Maurice Van Ryn	12	11	2	2	-	-
Charles Wayne Stringer	12	12	-	-	2	2
Graham Harry Buckeridge	12	11	2	2	2	1
Richard David Kuo	12	12	2	2	-	-
Robin Tedder	9	8	-	-	-	-
Wesley Stringer	12	12	-	-	-	-
Robert Maxwell Johnston	12	12	-	-	2	2

\* Number of board meetings held while director eligible to attend. \*\* Number of meetings for members of respective board or committee only.

## Information on Directors and Officers

### Maurice Van Ryn

#### Role

#### Qualifications

#### Experience

#### Special Responsibilities

#### Other Directorships

- Chairman (Non-executive)
- Bachelor of Business (RMIT)
- Appointed Chairman in July 2006. Previously held the position of CEO of Bega Cheese and is currently Bega Cheese's Manager Consumer Products - International. Maurice has 33 years experience in direct management of food companies in the Australian manufacturing sector.
- Member of Audit and Risk Committee.
- Non-executive Director of Medical Development International Limited (since October 2003).

### Graham Harry Buckeridge

#### Role

#### Qualifications

#### Experience

#### Special Responsibilities

#### Other Directorships

- Non-Executive Director
- Dip Bus, CPA, FFIN
- Co-founder and executive director of BG Capital Corp Ltd (BGC) a relationship based firm providing corporate advisory and investment banking services. Previously joint founder and Managing Director of Burdett Buckeridge and Young, a member corporation of ASX. Graham has extensive experience in all aspects of international and domestic financial markets.
- Member of Remuneration and Nominations Committee.
- Executive Director of BG Capital Corp Limited
- Executive Chairman of Abacus Film Fund

### Richard David Kuo

#### Role

#### Qualifications

#### Experience

#### Special Responsibilities

#### Other Directorships

- Non-Executive Director
- B.Com, LLB, FAICD
- Holds Commerce and Law degrees with post graduate qualifications in applied finance and investment. Brings with him 27 years experience in law, investment banking and corporate strategy. Currently manages Pier Capital, a privately owned investment banking firm which provides corporate and financial advice to corporations, investors and government and has extensive experience in mergers and acquisitions, capital markets and strategic planning.
- Responsibilities include Chairman of the Audit and Risk Management Committee.
- Non-Executive Director of Australian Art Events Foundation

### Robert Maxwell Johnston

#### Role

#### Qualifications

#### Experience

#### Special Responsibilities

#### Other Directorships

- Non-Executive Director
- FCDA, MAICD
- A former senior executive with Johnson & Johnson, the world's largest Medical, Pharmaceutical and Consumer Healthcare company. Mr. Johnston was president and CEO of Johnson & Johnson Pacific, while also concurrently leading several Asia Pacific Franchise and Functional working group. Brings extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe and Africa. Prior to joining Johnston & Johnson, Max's career also included senior roles with Diageo and Unilever.
- Chairman of Remuneration and Nominations Committee.
- Non-Executive Director of Medical Development International Limited

## DIRECTOR'S REPORT (continued)

**Charles Wayne Stringer**

## Role

## Qualifications

## Experience

- Chief Executive Officer (Executive Director)
- Dip. Bus, ACA
- CEO of Probiotec since it was founded in 1997. Overseen the development of a series of joint ventures and commercial opportunities and acquisition of Pharmaction in the 2004 financial year and the Biotech Milton Pharmaceutical company in 2005. Wayne also spent several years as a CEO and director of companies involved in manufacturing, retailing, finance, mining and waste management.
- Responsibilities include strategic management, remuneration and operational oversight.
- Nil

## Special Responsibilities

## Other Directorships

**Robin Tedder**

## Role

## Qualifications

## Experience

- Non-Executive Director
- FFIN, MW
- Robin has over 35 years experience in business investment and finance. He is the Chairman of Vintage Capital a private investment company and a director of several public and private companies active in property, retail and investment. Robin was a member of the ASX for over a decade and served as an executive director of two investment banks active in Australia and overseas. He is the Australian Ambassador for Singularity University (founders include Genentech and Google) of Mountain View California, which runs advanced technology healthcare education programs. Robin is a Fellow of the Financial Services Institute of Australia.
- Nil
- Blackwall Property Funds Ltd
- Pelorus Private Equity
- Kirela Pty Ltd
- Italtile Australia Pty Ltd

## Special Responsibilities

## Other Directorships

**Jared Stringer**

## Role

## Qualifications

## Experience

- Company Secretary
- B.Comm (Accounting, Finance), BIT, CPA
- Began employment with Probiotec in 2002 and accepted role of Financial Accountant in May 2005 before being appointed as Chief Financial Officer in 2011.
- None
- Nil

## Special Responsibilities

## Other Directorships

**Wesley Stringer**

## Role

## Qualifications

## Experience

- Chief Operation Officer
- B.Comm (Accounting, Finance), LLB (hons), CPA
- Prior to joining Probiotec, Wesley was employed by KPMG in Taxation and Finance. He has also worked internationally for Deutsche Bank and BNP Paribas Investment Bank in London.
- None
- Nil

## Special Responsibilities

## Other Directorships

**Insurance of Officers**

During the financial year the company insured its directors and officers against liabilities for all costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as directors and officers of the company, other than conduct involving a willful breach of duty in relation to the company. The total premium paid was \$46,306.

# REMUNERATION REPORT (AUDITED)

This report is prepared in accordance with section 300A of the Corporations Act 2001 for the Group for the financial year ended 30 June 2013. This report is audited.

## 1. REMUNERATION

### 1.1 Remuneration & Nominations Committee

The primary function of the Board Remuneration and Nominations Committee ("Committee") is to assist the Board of Directors ("Board") in fulfilling its oversight responsibility to shareholders by ensuring that:

- the Board comprises individuals best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance; and
- the Group has coherent remuneration policies and practices that fairly and responsibly reward executives having regard to performance, the law and the highest standards of governance.

The Committee's purpose in relation to remuneration is to:

- review and approve executive remuneration policy;
- make recommendations to the Board in relation to the remuneration of the Chief Executive Officer and Non-executive Directors;
- review and make recommendations to the Board on corporate goals and objectives relevant to the remuneration of the Chief Executive Officer, and the performance of the Chief Executive Officer in light of these objectives;
- approve remuneration packages for Probiotec's executives;
- review and approve all equity based plans;
- approve all merit recognition expenditure; and
- oversee general remuneration practices.

The Committee will primarily fulfill these responsibilities by carrying out the activities outlined in its Charter.

The Committee membership and the Chairman of the Committee will be as determined from time to time by the Board. Each of the members will be independent directors and free from any business or other relationship that, in the opinion of the Board, would materially interfere with the exercise of their independent judgement as a member of the Committee. New Committee members will receive induction training from the Chairman of the Committee, the Chief Financial Officer's and GM – Quality's teams and the Company Secretary. Committee members receive continuous training.

### Members of Remuneration and Nominations Committee

	Position	Appointed
Robert Maxwell Johnston	Chairman	29 July 2010
Graham Buckeridge	Member	28 July 2006

### 1.2 Remuneration Policy – Non-Executive Directors

The level of remuneration for the company's non-executive directors is set to reflect the scope of the director's responsibilities, the size of the company's operations and the workload demanded. Probiotec believes that the current remuneration packages for non-executive directors are appropriate having considered the factors above.

The current annualised total remuneration for the company's non-executive directors is \$274,000. The Nomination & Remuneration Committee reviews non-executive remuneration annually and makes recommendations to the Board. The Committee considers current market rates of remuneration for similar sized companies and obtains advice from independent professional firms if required. Shareholders will be periodically asked to approve increases in the fee level of non-executive directors if the size, scope, complexity or demands made on the directors increases.

Non-executive directors do not receive any performance related remuneration and are not entitled to receive performance shares, rights or options.

Remuneration levels for non-executive directors for the 2013 financial year are set out on page 11 of this report.

## REMUNERATION REPORT (AUDITED) (continued)

### 1.3 Remuneration Policy – Executive Directors and Key Management Personnel

The Remuneration and Nominations Committee has structured the Group's executive remuneration policies to ensure:

- the policy motivates executives to pursue the long term growth and success of Probiotec within an appropriate control framework;
- the policy demonstrates a clear relationship between individual performance and remuneration; and
- the policy involves an appropriate balance between fixed and variable remuneration, reflecting the short and long term performance objectives appropriate to Probiotec's circumstances and goals.

The Group's remuneration framework for executive directors and key management personnel comprises fixed annual remuneration, short-term incentives and long-term incentives. The Group structures remuneration packages to balance between base incomes and "at risk" incomes to ensure that key personnel are retained, whilst still providing strong incentives to maximise the potential long-term growth of the Group. The Group has no formal policy in place for limiting the risk to key management personnel in relation to their remuneration.

#### Short-term Incentives

Executive directors and key management are eligible to receive short-term incentive payments, in the form of cash bonuses, based on the achievement of set Key Performance Indicators (KPIs). KPIs are based on financial measures targeted at maximising Group performance and returns to shareholders. No specific performance conditions were set for the 2013 financial year and no short-term incentives were paid or payable to key management personnel.

#### Long-term Incentives

The Group provides long-term incentives to key management personnel to reward sustained performance by the organisation as a whole. Long-term incentives are in the form of options over Probiotec Limited shares issued under the company's Exempt Share and Option Plan, which was adopted by a resolution of members on 23 November 2011, or by the issue of shares under the company's Employee Share Plan, which was also adopted by members on 23 November 2011. The issue of shares and/or options is based on a review of the contributions and value of management personnel undertaken by the Nomination and Remuneration Committee.

At the date of this report, Wayne Stringer and Wesley Stringer are the only executive directors of Probiotec Limited. Both are paid a fixed annual remuneration. Along with his fixed annual remuneration, Mr. Wayne Stringer is also eligible to receive equity-based compensation, in the form of share options, based on the achievement of set milestones stipulated in his contract

of employment (see page 13 for details). Mr. Wesley Stringer had previously received shares under the Probiotec Limited Employee Share Plan prior to being appointed as a director of the company and was also granted options during the 2013 financial year (see page 26 for details).

#### Termination Arrangements

All key management personnel are employed subject to employment contracts with indefinite durations. These employment contracts specify notice period of between one and three months (unless a greater period is required by law). The Group may choose to make a payment in lieu of the notice period.

### 1.4 Remuneration Policy - Employees

All salaried positions are evaluated based on the size of the role, the level of accountability and experience required, amongst other factors. Economic and market factors are also taken into consideration when evaluating the remuneration level for a specified role.

## 2. LINKING REMUNERATION TO PROBIOTEC'S PERFORMANCE

Probiotec has structured its remuneration policies to increase goal congruence between shareholders, directors and executives. The company believes that this will have a positive effect on shareholder wealth.

The company is committed to innovation and growth, whilst continuing to focus on maximising profitability and long-term shareholder value.

There is no formal policy linking remuneration policy and company performance.

## 3. REVIEW OF REMUNERATION

The Remuneration and Nominations Committee meets one to two times per year in conjunction with the release of the financial results or more frequently as circumstances dictate to review the total remuneration paid to the CEO and senior executives of the company. In addition to the members of the Committee, such Executives and/or external parties as the Chairman and members of that Committee think fit may be invited to attend meetings.

All Directors may attend Committee meetings; however, the Chief Executive Officer and Chief Operating Officer will have no voting rights and must not be present during discussions on their own remuneration.



#### 4. REMUNERATION DETAILS OF KEY MANAGEMENT PERSONNEL

For the purposes of this report, "Key Management Personnel" are defined as those persons that have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

##### Directors

The following persons were directors of Probiotec Limited during the financial year:

Maurice Van Ryn	<i>Non-executive chairman</i>
Richard David Kuo	<i>Non-executive director</i>
Graham Harry Buckeridge	<i>Non-executive director</i>
Robert Maxwell Johnston	<i>Non-executive director</i>
Robin Tedder	<i>Non-executive director</i>
Charles Wayne Stringer	<i>Executive director</i>
Wesley Stringer	<i>Executive director</i>

##### Other key management personnel

The following persons also had responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

<b>Name</b>	<b>Position</b>	<b>Employer</b>
Jared Stringer	<i>Chief Financial Officer</i>	Probiotec Limited
Mark Chatfield	<i>GM – New Business</i>	Probiotec Limited
Dustin Stringer	<i>GM – Marketing</i>	Probiotec Limited
Humera Ahmad	<i>GM – Quality</i>	Probiotec Pharma Pty Ltd
Scott Patterson	<i>GM – Sales</i>	Biotech Pharmaceuticals Pty Ltd

No persons, who were not considered Key Management Personnel during the financial year ended 30 June 2012, were considered Key Management Personnel during this financial year.

No persons who were considered Key Management Personnel during the financial year ended 30 June 2012 were no longer considered Key Management Personnel during this financial year.

## REMUNERATION REPORT (AUDITED) (continued)

The Directors and identified Key Management Personnel received the following amount of compensation for their services as Directors and executives of the company and the group during the year:

2013	Position	Short-Term Benefits			Post Employment Benefits		Equity Based Benefits	Total \$	Proportion of Remuneration that is performance based (options) %
		Salary, Fees & Commissions \$	Short Term Incentives \$	Non-Cash Benefits \$	Long Service Leave <sup>2</sup> \$	Superannuation Contribution \$	Options \$		
Directors & Secretaries									
Maurice Van Ryn	Chairman	68,807	-	-	-	6,193	-	75,000	-
Charles Wayne Stringer	CEO / Managing Director	558,104	-	-	3,982	50,229	29,006	641,321	4.5
Richard David Kuo	Non-Executive Director	55,000	-	-	-	-	-	55,000	-
Graham Harry Buckeridge	Non-Executive Director	24,000	-	-	-	24,000	-	48,000	-
Robert Maxwell Johnston	Non-Executive Director	44,037	-	-	-	3,983	-	48,000	-
Wesley Stringer	COO / Executive Director	285,891	-	14,334	5,944	15,775	8,050	329,994	2.4
Robin Tedder <sup>3</sup>	Non-Executive Director	36,000	-	-	-	-	-	36,000	-
Jared Stringer	CFO / Company Secretary	209,480	-	-	4,666	18,853	9,200	242,199	3.8
		1,281,319	-	14,334	14,592	119,013	46,256	1,475,514	3.1
Other Key Management Personnel									
Humera Ahmad	GM - Quality	171,950	-	-	15,913	23,275	5,750	211,138	2.7
Mark Chatfield	GM – New Business	181,058	-	-	3,330	25,784	5,750	210,172	2.7
Scott Patterson	GM - Sales	187,952	-	-	290	16,514	5,750	204,756	2.8
Dustin Stringer	GM - Marketing	190,738	-	14,015	3,639	17,124	9,200	225,516	4.1
		731,698	-	14,015	23,172	82,697	26,450	878,032	3.0

<sup>2</sup>All Long Service Leave amounts relate to accrued balances. No Long Service Leave was taken or paid out during the year.

<sup>3</sup>Robin Tedder was appointed on 1 October 2012.

2012	Position	Short-Term Benefits			Post Employment Benefits		Equity Based Benefits	Total \$	Proportion of Remuneration that is performance based (options) %
		Salary, Fees & Commissions \$	Short Term Incentives \$	Non-Cash Benefits \$	Long Service Leave <sup>4</sup> \$	Superannuation Contribution \$	Options \$		
Directors & Secretaries									
Maurice Van Ryn	Chairman	68,807	-	-	-	6,193	-	75,000	-
Charles Wayne Stringer	CEO / Managing Director	665,137	-	-	21,895	59,863	-	746,895	-
Richard David Kuo	Non-Executive Director	55,000	-	-	-	-	-	55,000	-
Graham Harry Buckeridge	Non-Executive Director	-	-	-	-	48,000	-	48,000	-
Robert Maxwell Johnston	Non-Executive Director	44,036	-	-	-	3,964	-	48,000	-
Wesley Stringer	COO / Executive Director	275,987	-	14,334	3,104	15,679	-	309,104	-
Jared Stringer	CFO / Company Secretary	186,544	-	-	2,543	16,789	-	205,876	-
		1,295,511	-	14,334	27,542	150,487	-	1,487,875	-
Other Key Management Personnel									
Humera Ahmad	GM - Quality	153,550	-	-	4,930	22,638	-	181,118	-
Mark Chatfield	GM – New Business	151,671	-	-	1,910	26,660	-	180,241	-
Scott Patterson <sup>1</sup>	GM - Sales	16,798	-	-	-	10,014	-	26,812	-
Dustin Stringer	GM - Marketing	169,654	-	-	1,799	15,252	-	184,705	-
		491,673	-	-	8,639	74,564	-	574,876	

<sup>4</sup> All Long Service Leave amounts relate to accrued balances. No Long Service Leave was taken or paid out during the year.

<sup>5</sup> Scott Patterson commenced employment on 14 May 2012.

No long-term employee benefits, other than equity-based benefits and accrued long service leave have been provided to Directors, Secretaries or Key Management personnel during the year.

## REMUNERATION REPORT (AUDITED) (continued)

**Options issued to Chief Executive Officer (CEO)**

On 23 November 2012, the issue of 1,500,000 options to the CEO was approved at a general meeting on the terms set forth below -

- (a) Each option has an exercise price of \$0.70 per fully paid ordinary share
- (b) The options will lapse 48 months after their date of grant
- (c) The options do not vest until 24 months after their date of grant
- (d) Each option entitles the holder to 1 fully paid ordinary share
- (e) Shares issued upon exercise of option will rank equally with all existing ordinary shares of the company

**Options issued to Key Management Personnel**

On 1 July 2012, the issue of 1,700,000 options to Key Management Personnel was made on the terms set forth below -

- (f) Each option has an exercise price of \$0.70 per fully paid ordinary share
- (g) The options will lapse 36 months after their date of grant
- (h) The options do not vest until 24 months after their date of grant
- (i) Each option entitles the holder to 1 fully paid ordinary share

**Options issued to Chief Operating Officer (COO)**

On 23 November 2012, the issue of 600,000 options to the COO was approved at a general meeting on the terms set forth below -

- (j) Each option has an exercise price of \$0.70 per fully paid ordinary share
- (k) The options will lapse 36 months after their date of grant
- (l) The options do not vest until 24 months after their date of grant
- (m) Each option entitles the holder to 1 fully paid ordinary share
- (n) Shares issued upon exercise of option will rank equally with all existing ordinary shares of the company

Full Details of these options can be found on page 14.

No options were exercised during the year ended 30 June 2013.

## 5. INTEREST IN SHARES & OPTIONS

The number of options held by key management personnel is as follows:

Name	Grant Date	Vesting Date	Expiry Date	Exercise Price	Balance at start of the year number	Option Granted during the year number	Option lapsed/ forfeited during the year number	Option Vested during the year number	Balance vested at end of the year number	Balance unvested at end of the year number	Fair Value per options <sup>1</sup> at grated date
Charles Wayne Stringer	23.11.2012	23.11.2014	23.11.2015	\$0.70	-	1,500,000	-	-	-	1,500,000	\$0.04
	05.08.2008	30.06.2012	30.06.2013	\$2.00	500,000	-	(500,000)	-	-	-	\$0.16
	05.08.2008	30.06.2011	30.06.2013	\$1.75	500,000	-	(500,000)	-	-	-	\$0.17
	05.08.2008	30.06.2010	30.06.2013	\$1.50	500,000	-	(500,000)	-	-	-	\$0.21
Wesley Stringer	24.11.2012	23.11.2014	23.11.2015	\$0.70	-	600,000	-	-	-	600,000	\$0.02
	01.7.2008	30.6.2011	30.6.2013	\$1.50	50,000	-	(50,000)	-	-	-	\$0.17
	30.6.2009	30.6.2012	30.6.2014	\$2.35	60,000	-	-	-	60,000	-	\$0.41
Dustin Stringer	01.07.2012	30.06.2014	30.06.2015	\$0.70	-	400,000	-	-	-	400,000	\$0.02
	01.7.2008	30.6.2011	30.6.2013	\$1.50	40,000	-	-	-	40,000	-	\$0.17
	30.6.2009	30.6.2012	30.6.2014	\$2.35	60,000	-	-	-	60,000	-	\$0.41
Mark Chatfield	01.07.2012	30.06.2014	30.06.2015	\$0.70	-	250,000	-	-	-	250,000	\$0.02
	01.7.2008	30.6.2011	30.6.2013	\$1.50	25,000	-	-	-	25,000	-	\$0.17
	30.6.2009	30.6.2012	30.6.2014	\$2.35	25,000	-	-	-	25,000	-	\$0.41
Humera Ahmad	01.07.2012	30.06.2014	30.06.2015	\$0.70	-	250,000	-	-	-	250,000	\$0.02
	01.7.2008	30.6.2011	30.6.2013	\$1.50	20,000	-	-	-	20,000	-	\$0.17
	30.6.2009	30.6.2012	30.6.2014	\$2.35	15,000	-	-	-	15,000	-	\$0.41
Scott Patterson	01.07.2012	30.06.2014	30.06.2015	\$0.70	-	250,000	-	-	-	250,000	\$0.02
Jared Stringer	01.07.2012	30.06.2014	30.06.2015	\$0.70	-	400,000	-	-	-	400,000	\$0.02
	01.7.2008	30.6.2011	30.6.2013	\$1.50	30,000	-	-	-	30,000	-	\$0.17
	30.6.2009	30.6.2012	30.6.2014	\$2.35	45,000	-	-	-	45,000	-	\$0.41
					1,870,000	3,650,000	(1,550,000)	-	320,000	3,650,000	

\*The executives have no access to the shares until expiry of 36 months of their employment with the company or an Associated Body Corporate from the date of grant of the shares. All shares are forfeited if the grantee resigns from the company prior to the expiry of 36 months from the date of grant of the shares.

\*\*All options<sup>1</sup> have been valued using the Black-Scholes option model. The values of the options<sup>1</sup> calculated under this method are allocated evenly over the vesting period.

The number of shares held by key management personnel is as follow:

Name	No. of fully paid ordinary shares
Maurice Van Ryn	991,122
Richard David Kuo	74,726
Graham Henry Buckeridge	1,448,684
Robin Tedder	5,262,334
Robert Maxwell Johnston	307,215
Charles Wayne Stringer	8,675,786
Wesley Stringer	337,689
Dustin Stringer	77,000
Mark Chatfield	-
Humera Ahmad	-
Scott Patterson	-
Jared Stringer	138,717



## REMUNERATION REPORT (AUDITED) (continued)

**6. SHARE OPTIONS EXERCISED OR LAPSED DURING THE YEAR**

No share options issued to directors or Key Management Personnel were exercised, lapsed or forfeited during the year ended 30 June 2013, other than:

Name	Grant date	Vesting date	Exercise Price (\$)	Forfeited during the year Number	Lapsed during the year Number	Value of Shares at Forfeited/lapsed Date (\$)
Humera Ahmad	01.07.2008	30.06.2011	1.50	-	20,000	
Mark Chatfield	01.07.2008	30.06.2011	1.50	-	25,000	
Dustin Stringer	01.07.2008	30.06.2011	1.50	-	40,000	
Charles Wayne Stringer	05.08.2008	30.06.2010	1.50	500,000	-	
Charles Wayne Stringer	05.08.2008	30.06.2011	1.75	500,000	-	
Charles Wayne Stringer	05.08.2008	30.06.2012	2.00	500,000	-	
Jared Stringer	01.07.2008	30.06.2011	1.50	-	30,000	
Wesley Stringer	01.07.2008	30.06.2011	1.50	-	50,000	

The fair value of the options at the date they lapsed or forfeited was \$0.01 per option.

The board has no formal policy in place for limiting the risk to the directors or other key management personnel in relation to the options issued.

**7. CONTRACTS OF EMPLOYMENT**

All executive staff employed by the Group are subject to employment contracts, which set out the terms and conditions of their employment. These contracts define their level of remuneration, length of contract (if for fixed period) and termination events amongst other areas. The standard notice period for employees of the Group is one month; however, this may be varied to be up to one year in limited instances.

**End of remuneration report.****Proceedings on Behalf of the Company**

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

**Non-audit Services**

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audited services are reviewed and approved by the board prior to commencement to ensure that they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditors independence as set out in Code of Conduct APES 110 Code of Ethics for professional accountants issued by the Accounting professional & ethical standards board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2013.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 29 of this report.

Signed in accordance with a resolution of Board of Directors.



Director  
Charles Wayne Stringer

Signed at Laverton this 22nd day of August 2013

# AUDITOR'S INDEPENDENCE DECLARATION

## MOORE STEPHENS ACCOUNTANTS & ADVISORS

Level 10, 530 Collins Street  
Melbourne VIC 3000

T +61 (0)3 8635 1800  
F +61 (0)3 8102 3400

[www.moorestephens.com.au](http://www.moorestephens.com.au)

### Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Probiotec Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.
- (iii)

Moore Stephens

MOORE STEPHENS  
Chartered Accountants



Nick Michael  
Partner

Melbourne, 22 August 2013

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated Group 2013 \$	2012 \$
Sales revenue from continuing operations	2	67,342,884	66,046,188
Cost of goods sold		(38,167,752)	(36,791,522)
Gross profit		29,175,132	29,254,666
Other revenue	2	10,241	119,164
Other income	2	891,043	3,585,907
Warehousing & distribution expenses		(5,917,382)	(4,778,448)
Sales and marketing expenses		(10,777,436)	(14,138,251)
Impairment expenses		-	(1,245)
Finance costs		(1,598,713)	(2,011,984)
Legal costs		(283,403)	(418,818)
Administration and other expenses	4	(9,955,194)	(9,373,374)
<b>Profit / (loss) from continuing activities before income tax expense</b>		<b>1,544,289</b>	<b>2,237,617</b>
Income tax expense relating to continuing activities	5	(71,803)	(8,367)
<b>Profit / (loss) from continuing activities for the period attributable to members of the parent entity</b>		<b>1,472,486</b>	<b>2,229,250</b>
Loss from discontinued operations	6	(875,617)	(979,870)
<b>Profit for the period attributable to members of the parent entity</b>	3	<b>596,869</b>	<b>1,249,380</b>
<b>Other comprehensive income</b>			
Other Comprehensive income / (loss) to be classified to profit and loss when specific conditions are met		448,070	(90,584)
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the year, net of tax		448,070	(90,584)
<b>Total comprehensive income for the year</b>		<b>1,044,939</b>	<b>1,158,795</b>
<b>Total comprehensive income for the year attributable to members of the parent entity</b>		<b>1,044,939</b>	<b>1,158,795</b>
<b>Earnings per share for profit attributable to members of the parent entity</b>			
Basic earnings per share (cents)	31	1.1	2.4
Diluted earnings per share (cents)	31	1.1	2.4
<b>Earnings per share from discontinued operations</b>			
Basic earnings per share (cents)	31	(1.7)	(1.9)
Diluted earnings per share (cents)	31	(1.7)	(1.9)

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the attached notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	Consolidated Group 2013 \$	2012 \$
<b>Current Assets</b>			
Cash and cash equivalents	11	46,117	193,388
Trade and other receivables	12	11,228,921	8,446,915
Inventories	13	13,217,477	14,253,617
Other current assets	14	260,950	489,770
<b>Total Current Assets</b>		<b>24,753,465</b>	<b>23,383,690</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	15	52,980,191	47,938,462
Intangible assets	16	28,942,262	28,332,961
Deferred tax assets	17	3,186,649	1,510,279
<b>Total Non-Current Assets</b>		<b>85,109,102</b>	<b>77,781,702</b>
<b>Total Assets</b>		<b>109,862,566</b>	<b>101,165,392</b>
<b>Current Liabilities</b>			
Trade & other payables	18	13,767,584	10,213,722
Short-term interest bearing liabilities	19	23,631,111	21,779,416
Current tax liabilities	5	-	-
Short-term provisions	20	1,056,165	969,210
<b>Total Current Liabilities</b>		<b>38,454,860</b>	<b>32,962,348</b>
<b>Non-Current Liabilities</b>			
Long-term interest bearing liabilities	19	2,509,610	2,049,986
Deferred tax liabilities	21	4,945,000	3,330,902
Long-term provisions	20	434,006	348,006
<b>Total Non-Current Liabilities</b>		<b>7,888,617</b>	<b>5,728,894</b>
<b>Total Liabilities</b>		<b>46,343,477</b>	<b>38,691,242</b>
<b>Net Assets</b>		<b>63,519,089</b>	<b>62,474,150</b>
<b>Equity</b>			
Contributed equity	22	33,686,519	33,686,519
Equity Translation Reserve	23	(210,355)	(658,425)
Asset Revaluation Reserve	23	4,217,149	4,217,149
Retained earnings		25,825,776	25,228,907
<b>Total Equity</b>		<b>63,519,089</b>	<b>62,474,150</b>

The Consolidated Statement of Financial Position is to be read in conjunction with the attached notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	Ordinary Share Capital \$	Equity Translation Reserve \$	Asset Revaluation Reserve \$	Retained Earnings \$	Total \$
<b>Balance as at 1 July 2011</b>	33,686,519	(681,306)	4,523,385	23,786,755	61,315,353
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	1,249,380	1,249,380
Asset revaluations	-	-	(113,465)	-	(113,465)
Other comprehensive income	-	22,881	-	-	22,881
Sale of property, plant and equipment previously revalued	-	-	(192,771)	192,771	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>22,881</b>	<b>(306,236)</b>	<b>1,442,151</b>	<b>1,158,796</b>
<b>Transactions with owners in their capacity as owners</b>					
Shares (cancelled) / issued during the year	-	-	-	-	-
Dividends paid or provided for	-	-	-	-	-
<b>Balance as at 30 June 2012</b>	<b>33,686,519</b>	<b>(658,425)</b>	<b>4,217,149</b>	<b>25,228,907</b>	<b>62,474,150</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	596,869	596,869
Asset revaluations	-	-	-	-	-
Other comprehensive income	-	448,070	-	-	448,070
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>448,070</b>	<b>-</b>	<b>596,869</b>	<b>1,044,939</b>
<b>Transactions with owners in their capacity as owners</b>					
Shares (cancelled) issued during the year	-	-	-	-	-
Dividends paid or provided for	-	-	-	-	-
<b>Balance as at 30 June 2013</b>	<b>33,686,519</b>	<b>(210,355)</b>	<b>4,217,149</b>	<b>25,825,776</b>	<b>63,519,089</b>

The Consolidated Statement of Changes in Equity is to be read in conjunction with the attached notes.



# CONSOLIDATED STATEMENT OF CASH FLOWS

AS AT 30 JUNE 2013

	Note	Consolidated Group 2013 \$	2012 \$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		64,560,878	67,849,578
Payments to suppliers and employees		(57,530,458)	(62,410,161)
Interest received		10,241	119,164
Interest and other costs of finance paid		(1,598,713)	(2,011,984)
Income tax paid		-	(3,071)
Net cash provided by operating activities	27 (b)	5,441,948	3,543,526
<b>Cash Flows From Investing Activities</b>			
Payment for property, plant and equipment		(8,034,247)	(3,532,926)
Proceeds from sale of property, plant and equipment		32,094	1,048,125
Proceeds from sale of intangible assets		900,000	6,000,000
Cash payments for investments		-	(322,046)
Receipts relating to loans receivable		511,496	590,001
Purchase of intangible assets		(1,309,880)	(2,596,575)
Net cash used in investing activities		(7,900,537)	1,186,579
<b>Cash Flows From Financing Activities</b>			
Proceeds from issues of shares		-	-
Dividends Paid		-	-
Proceeds from borrowings		6,187,666	1,527,448
Repayment of borrowings		(5,303,931)	(7,002,272)
Net cash provided by / (used in) financing activities		883,735	(5,474,824)
Net Increase in cash held		(1,574,856)	(744,719)
<b>Cash at beginning of financial year</b>		<b>193,388</b>	<b>938,107</b>
<b>Cash at end of financial year</b>	11	<b>(1,381,468)</b>	<b>193,388</b>

## RECONCILIATION OF CASH AND CASH EQUIVALENT

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash	46,117	193,388
Bank Overdraft	(1,427,584)	-
	<b>(1,381,468)</b>	<b>1,673,396</b>

The Consolidated Statement of Cash Flows is to be read in conjunction with the attached notes.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers Probiotec Limited ("company") and controlled entities ("group"). Probiotec Limited is a for-profit listed public company, incorporated and domiciled in Australia. The financial report is for the financial year ended 30 June 2013 and is presented in Australian dollars.

### Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Australian Accounting interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The accounting policies set out below have been consistently applied to all years presented.

### Reporting Basis and Convention

The financial report has been prepared on an accrual basis and is applied on historical costs modified by the revaluation of selected non-current assets, financial liabilities and derivative financial instruments for which the fair value basis of accounting has been applied.

### Compliance with IFRS

Australian Accounting Standards include International Financial Reporting Standards as adopted in Australia. Compliance with Australian Accounting Standards ensures that the financial statements and notes of Probiotec Limited comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of these financial statements have been consistently applied unless stated otherwise.

### Authorisation for issue

This financial report was authorized for issue by the board of directors of Probiotec Limited on 22 August 2013.

### Accounting Policies

#### (a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being Probiotec Limited (the parent entity) and its controlled entities as defined in accounting standard AASB 127 "Consolidated and Separate Financial Statements". Where a subsidiary either began or ceased to be controlled during the year, the results of its operations are included only from the date control commenced or ceased.

All inter-company balances and transactions between entities in the group, including any unrealised profits or losses, have been eliminated on consolidation.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively.

Subsidiaries are accounted for by the parent entity at cost, less any impairment charges.

#### (b) Income Tax

##### (i) General

Current tax assets and liabilities for the current and prior periods are measured as the amount expected to be recovered from or paid to the taxation authorities. The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate of each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax balances are determined using the balance sheet liability method which calculates temporary differences based on the carrying amounts of an entity's asset and liabilities carried in the financial statements and their associated tax bases. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted on reporting date. Deferred tax is credited in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets will be recognised only to the extent that it is probable that future income tax profits will be available against which the assets can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and to comply with the conditions of the deductibility imposed by law.

The carrying amount of deferred income tax assets is reviewed at each balance 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 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.

### **(iii) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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.

## **(c) Foreign Currency Translation**

### **(i) Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

### **(iii) Foreign Currency Transactions**

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the date when the fair value was determined.

### **(iii) Translation of group companies functional currency to presentation currency**

The results of the New Zealand, British, Chinese, German and Irish subsidiaries are translated into Australian dollars as at the date of the transactions. Assets and liabilities are translated at exchange rates prevailing at balance date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in other comprehensive income.

## **(d) Impairment of assets**

The recoverable amount of the Group assets excluding deferred tax assets and goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset is tested for impairment by comparing the recoverable amount (being the higher of the asset's fair value less cost to sell and value in use) to its carrying amount. Goodwill and intangible assets that have an indefinite useful life and assets not ready for use are tested for impairment at least annually. The recoverable amount is estimated for the individual asset or, if it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit (CGU) to which the asset belongs is determined. CGUs have been determined as the smallest identifiable group of assets that generate cash inflows largely independent of the cash flow of other assets.

An impairment loss is recognised as an expense when the carrying amount of an asset or the CGU exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss recognised in prior periods for an asset (other than goodwill) is reversed if, and only where there is an indicator that the impairment loss may no longer exist, and there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of an asset due to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortisation) had no impairment loss been recognised for the asset in prior years.

In calculating the value in use, the cash flow includes projections of cash inflows and outflows from continuing use of the asset and cash flows associated with disposal of the asset. The cash flows are estimated for the assets in their current condition and do not include cash flows and out flows expected to arise from future restructuring which are not yet committed, or from improving or enhancing the asset's performance. In assessing value in use, the estimated cash flows are discounted to their present value effectively using a pre-tax discount rate that reflects the current market assessments of the risk specific to the asset or CGU.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**(e) Inventories**

Inventories, which include raw materials, work in progress and finished goods, are valued at the lower of cost and net realisable value. Costs comprise all cost of purchase and conversion, including material, labour and appropriate portion of fixed and variable overhead expenses. Costs have been assigned to inventory on hand at reporting date using either the first-in-first-out (F.I.F.O.) basis or the weighted average cost basis, depending on the nature of product being manufactured. Fixed overheads are allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

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

Each class of property, plant and equipment is carried at historical cost or fair value less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

**(i) Property**

Freehold land and buildings are stated at fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, valuations by external valuers, less subsequent depreciation for the building. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset and the net amount is reinstated to the revalued amount of the asset. Independent valuations are carried out every three to five years, with internal reviews performed regularly to ensure that the carrying amounts of land and buildings do not differ materially from the fair value at the reporting date.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings. When revalued assets are sold, amounts included in the revaluation reserve relating to the asset are transferred to retained earnings.

**(ii) Plant and Equipment**

Plant and equipment are stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed as the higher of fair value less costs to sell or value in use. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognized either in profit and loss or as a revaluation decrease if the impairment loss relates to a revalued asset.

The cost of fixed assets constructed within the group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial year in which they were incurred.

**Depreciation**

The depreciable amount of property, plant and equipment, including capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Buildings	4%
Leased Plant, Equipment and Other	5% to 12.5%
Plant, Equipment and Other	5% to 50%

The assets' residual value and useful life are reviewed, and adjusted if appropriate, at each balance date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

**(g) Leases**

Leases where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the group are classified as finance leases. Finance lease are capitalised at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the current and non-current interest bearing liabilities. Each lease payment is allocated between the liability and the finance charges. The

interest element of the lease payment is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life or the lease term, unless it is reasonably certain that ownership will be obtained by the end of the lease term where it is depreciated over the period of the expected use which is the useful life of the asset.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the period of the lease.

#### **(h) Investments in Associates**

Associates comprise entities over which the parent entity or the Group have significant influence and hold an ownership interest. Investments in associated companies are recognised in the financial statements by applying the equity method of accounting.

Under the equity method of accounting the carrying amounts of investments in associates are increased or decreased to recognise the Group's share of the post-acquisition profits or losses and other changes in net assets of the associates. The Group's share of the post-acquisition profits or losses of associates is included in the consolidated profit and loss.

The financial statements of the associate are used to apply the equity method. The reporting dates of the associate and the parent are identical and both use consistent accounting policies.

Associates are accounted for in the parent entity financial statements at cost.

#### **(i) Interests in Joint Venture Entities**

Under AASB 131 "Interests in Joint Ventures" interests in jointly controlled entities can be recognised using either the proportionate consolidation approach or the equity method. Prior to 1 July 2008, the group had accounted for its interests in joint ventures using the equity method. From 1 July 2008, the group has changed its policy to account for interests in joint ventures such that the proportionate consolidation method is adopted.

#### **(j) Intangibles**

##### **i) Goodwill**

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity plus the amount of any non-controlling interests in the acquiree exceeds the fair value attributed to the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment. For the

purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to these units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, to which the goodwill relates. Impairment losses recognised for goodwill are not subsequently reversed. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### **ii) Trademarks, Licenses, product development costs and Product Dossiers**

Trademarks, licenses, product development costs and product dossiers ("Developed Products") are initially recognised at cost. Developed Products have an indefinite life and are tested at each reporting date for impairment and carried at cost less accumulated impairment losses. Those with a finite life are carried at cost less any accumulated amortisation and accumulated impairment losses. Those developed products with finite lives are amortised on a straight line basis over a useful life of between 10 and 40 years. Amortisation is included within administration and other expenses in the statement of comprehensive income.

##### **iii) Research and Development – Internally generated**

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised if the product or service is technically feasible, adequate resources are available to complete the project, it is probable that future economic benefits will be generated and expenditure attributable to the project can be measured reliably. Expenditure capitalised comprises costs of materials, services, direct labour and directly attributable overheads. Other development costs are expensed when they are incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and any impairment losses and amortised over the period of expected future sales from the related projects. The carrying value of development costs is reviewed annually when the asset is not yet available for use, or when events or circumstances indicate that the carrying value may be impaired.

#### **(k) Employee Benefits**

##### **i) Wages, Salaries & Annual Leave**

Liabilities for employee benefits such as wages, salaries, annual leave, sick leave and other current employee entitlements represent present obligations resulting from employees' services provided to reporting date, and are measured at the amount expected to be paid when the liabilities are settled.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

**ii) Long Service Leave**

Liabilities relating to Long Service Leave are measured as the present value of the estimated future cash outflows to be made in respect to services provided by employees, up to the reporting date. Consideration is given to expected future wage levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

**iii) Superannuation**

Contributions are made by the entity to employee superannuation funds and are charged as expenses when incurred. The consolidated entity does not maintain any retirement benefit funds.

**iv) Employee share based payments**

Shares issued pursuant to an employee share plan, which are facilitated by means of a loan with recourse only to the shares, are treated as an option grant. The loan is shown as a reduction in equity until the shares are either cancelled or settled in accordance with the terms of the plan. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in the share-based payments reserve in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options. The fair value of options granted is measured using the Black Scholes model. The amount recognised as an expense is adjusted to reflect the actual number of options that vest, except where forfeiture is due to market related conditions.

At each subsequent reporting date until vesting, the cumulative change to profit or loss is the product of:

- The grant date fair value.
- The current best estimate of the number of securities that will vest, taking into account factors such as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions not being met.
- The expired portion of the vesting period.

**(l) Financial Instruments****Recognition**

Financial instruments are initially measured at fair value plus directly attributable transaction costs except for financial instruments that are measured at fair value through profit and loss, which are initially measured at fair value and any directly attributable transaction costs are recognized in profit or loss immediately. Subsequent to initial recognition these instruments are measured as set out below.

**Loans and Receivables**

Loan and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest method. Loans and receivables are initially measured at fair value and are subsequently measured at amortised cost less any allowance for impairment. Trading terms are between 7 days to 60 days. An allowance for impairment is recognised when it becomes probable that the all or part of the loan or receivable will not be recoverable. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

**Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the group prior to the year end and which are unpaid. These amounts are unsecured and have 30 – 90 day payment terms. Trade and other payables are carried at amortised cost, yet due to their short term nature, they are not discounted. Gains or losses are recognized in profit or loss through the amortization process when the financial liability is derecognised.

**Interest bearing liabilities**

Borrowings are subsequently measured at amortised cost using the effective interest method.

**Fair Value**

Fair value is determined based on current bid prices of all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired (see note 1(d) for further details).

**Derivative financial instruments**

The group uses derivative financial instruments such as forward foreign currency contracts and interest rate swaps to hedge its risk associated with interest rate and foreign currency fluctuations. Such derivatives are stated at fair value on the date which the derivative contract is entered into and is subsequently remeasured at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year where they are material.

### (m) Government Grants

Grants from government are recognised at the fair value when there is a reasonable assurance that the grant will be received and the consolidated entity has complied with the required conditions. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income and are amortised on a straight line basis over the expected lives of the assets.

### (n) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the group and the revenue can be measured reliably. Amounts disclosed as revenue are net of returns, allowances and discounts. Sales revenue comprises revenue earned from the provision of products and services to entities outside the consolidated entity. Sales revenue is recognised when the risks and rewards of ownership have transferred to the customer and can be measured reliably. Risks and rewards are considered passed to the buyer when goods have been delivered to the customer.

Interest income is recognised as it accrues using the effective interest method. This method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset. Interest income is included as financial income in profit or loss. Dividends are recognised when the group's right to receive payment is established.

All revenue is stated net of the amount of goods and services tax (GST).

### (o) Financing costs

Financing costs include interest income and expense, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and lease finance charges. Borrowing costs are expensed as incurred except when directly attributable to the acquisition, construction or production of a qualifying asset, in which case they form part of the cost of the asset.

### (p) Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology.

### (q) Cash

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

### (r) Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation for the current year.

### (s) Earnings per share

Basic earnings per share is determined by dividing the net profit attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares, adjusted for any bonus elements.

Diluted earnings per share is determined by dividing the net profit attributable to members of the Company, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus elements.

### (t) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

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.

### (u) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**(v) New Accounting Standards**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

- AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2015).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and de-recognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

These standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012-6: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (issued in September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015.

In light of this change to the mandatory effective date, the Group is expected to adopt AASB 9 and AASB 2010-7 for the annual reporting period ending 30 June 2015. Although, the directors anticipate that the adoption of AASB 9 and AASB 2010-7 may have a significant impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements [August 2011], AASB 128: Investments in Associates and Joint Ventures [August 2011] (as amended by AASB 2012-10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127 [March 2008, as amended] and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either 'joint operations' (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or 'joint ventures' (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a 'structured entity', replacing the 'special purpose entity' concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued.

These Standards are not expected to significantly impact the Group's financial statements.

- AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in the Group's financial statements.

AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods beginning on or after 1 July 2013)

This Standard makes amendments to AASB 124: Related Party Disclosures to remove the individual key management personnel disclosure requirements (including paragraphs Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent *Corporations Act 2001* disclosure requirements.

This Standard is not expected to significantly impact the Group's financial report because the *Corporations Legislation Amendment Regulation 2013 (No. A)* proposes to include the requirements in AASB 124 that will be deleted by AASB 2011-4 in the *Corporations Regulations*.

- AASB 119: Employee Benefits [September 2011] and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (applicable for annual reporting periods commencing on or after 1 January 2013)

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 [September 2011] also includes changes to:

- (a) require only those benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees

render the related service to be classified as short-term employee benefits. All other employee benefits are to be classified as either other long-term employee benefits, post-employment benefits or termination benefits, as appropriate; and

- (b) the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137 and if earlier than the first two conditions – when the related restructuring costs are recognised.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2013 \$	2012 \$
<b>2. REVENUE AND OTHER INCOME</b>		
Revenue from:		
Interest received	10,241	119,164
Sale of goods	67,342,884	66,046,188
<b>Total Revenue</b>	<b>67,353,125</b>	<b>66,165,352</b>
Government subsidies received	57,757	174,389
Profit on disposal of intangible assets	814,044	2,663,862
Sundry income	19,242	747,656
Total other income	891,043	3,585,907
<b>Total revenue and other income from continuing operations</b>	<b>68,244,168</b>	<b>69,751,259</b>
<b>3. PROFIT FOR THE YEAR</b>		
Net profit has been arrived at after including:		
Finance cost - non related parties	1,598,713	2,011,984
Foreign currency translation losses / (gains)	40,029	675,545
Bad and doubtful debts expense - trade receivables	42,249	43,919
Rental on operating lease expenses - minimum lease payments	919,794	612,337
Inventory write-offs	305,535	257,069
Professional and consulting expenses	374,368	188,864
Employee benefits expenses	20,343,473	22,082,681
Repairs and maintenance expenses	1,021,445	795,436
Research and development cost	2,127,247	2,183,790
Depreciation of property, plant and equipment	2,960,424	3,129,932
Amortisation of intangibles	600,450	694,327
Impairment costs - intangibles	-	1,245
Impairment costs - current assets	617,639	991,182
Impairment - investments	-	385,767
Defined contribution superannuation expense	1,220,734	966,442
<b>4. ADMINISTRATION &amp; OTHER EXPENSES</b>		
Administration & other expenses comprises:		
Insurance	747,793	862,280
Office expenses	606,661	920,445
Travel and entertainment	-	493,780
Compliance costs	626,379	867,571
Other expenses	7,974,360	6,229,298
	<b>9,955,194</b>	<b>9,373,374</b>

	2013 \$	2012 \$
<b>5. INCOME TAX EXPENSE</b>		
<b>(a) Components of Tax Expense:</b>		
Current income tax	-	-
Deferred income tax	71,803	8,367
Over provision for income tax in prior years	-	-
	<b>71,803</b>	<b>8,367</b>
Income tax is attributable to:		
(Loss) / profit from continuing operations	71,803	8,367
(Loss) / profit from discontinued operations	-	-
	<b>71,803</b>	<b>8,367</b>
<b>(b) Reconciliation of income tax expense to prima facie tax payable on profit / (loss)</b>		
Profit / (loss) from continuing operations	1,544,289	2,237,617
Profit / (loss) from discontinued operations	(875,617)	(979,870)
	<b>668,672</b>	<b>1,257,747</b>
Prima facie tax expense on profit/(loss) before income tax at 30% (2012: 30%)	200,602	377,324
Add Tax effect of:		
Impairment of intangibles	-	374
Impairment of fixed assets	-	-
Recoupment of prior losses not yet booked	-	(150,000)
Tax losses not recognised	-	-
Research and development tax concession	(135,000)	(135,000)
Other non allowable or assessable items	6,201	(84,331)
<b>Income tax expense / (benefit)</b>	<b>71,803</b>	<b>8,367</b>
<b>Current tax payable</b>	<b>-</b>	<b>3,071</b>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

**6: DISCONTINUED OPERATIONS**

As set out in Note 6 of the financial report of Probiotec Limited for the year ended 30 June 2011 ("2011 Financial Report") and the year ended 30 June 2012 ("2012 Financial Report"), Probiotec Limited undertook a comprehensive strategic and operational review of its business operations, assets and financial position. Full details of each of the operations classified as discontinued can be found in Note 6 of the 2011 Financial Report and 2012 Financial Report, subject to the following update:

**Animal Nutrition**

On 10 May 2013, Probiotec Limited sold its animal nutrition brands and associated business assets. The brands sold were: Palastart, Maxicalf, Topcalf, Daisywite and Palaequine. The total consideration for this sale amounted to \$900,000 plus the purchase of stock on hand at cost. The sale resulted in a net profit of \$449,339.

The Comprehensive income of the discontinued operations was:

	2013 \$	2012 \$
Revenue	2,239,077	418,814
Impairment costs	(617,639)	(1,378,193)
Expenses	(2,497,055)	(20,491)
Loss from discontinued operations before income tax	(875,617)	(979,870)
Income tax benefit / (expense)	-	-
Loss from discontinued operations after income tax	(875,617)	(979,870)
The cash flow of the discontinued operations was:		
Net cash flow used in operating activities	(257,978)	(347,606)
Net cash flow used in investing activities	-	-
Net cash flow used in financing activities	-	-
Net decrease in cash held	(257,978)	(347,606)

## 7: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### ***(i) Value in use calculation assumptions***

The recoverable amount of each cash-generating unit used for impairment testing is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period. The discounted cash flows for each cash-generating unit is calculated based on management forecasts for sales, gross profit and resultant earnings. The assumed growth rate beyond the forecast cash flow period and discount rate used in the determination of value in use were 5% and 12.4% respectively. The discounted rate used is the Weighted Average Cost of Capital (WACC) of the Group at the reporting date. These value-in-use calculations are sensitive to changes in the key assumptions used. Changes in the nature or quantum of key assumptions would alter the value-in-use calculations and could potentially result in certain cash-generating units being subject to impairment.

### ***(ii) Amortisation of intangibles***

As detailed in Note 1 (j), the group has a policy of amortising intangible assets with a finite useful life over a period of 10 to 40 years (other than those which are subject to a fixed term license) and the remainder have been determined to have an indefinite useful life. The carrying value of those assets with a finite useful life and those with an indefinite useful life is set out in Note 18. The determination of the useful life of each intangible asset, which comprises capitalised product development costs, is based on the group's knowledge of each major category of intangible assets and the future economic benefits expected to be received from each. The group reassesses the useful life of intangible assets at each reporting date and at any future period may change the useful life of an intangible asset based on information available at that date. The group recognised amortisation of \$600,450 relating to assets with a finite useful life during the current year.

### ***(iii) Capitalised Development Costs***

As detailed in Note 1 (j), the Group has a policy of capitalising development costs under certain conditions. A degree of judgement is used in assessing the suitability of these costs for capitalisation in regards to technical feasibility, adequate resources being available to complete the project, the probability that future economic benefits will be generated and that the expenditure attributable to the project can be measured reliably.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**8: KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES DISCLOSURES**

Full details of Key Management Personnel and their related party disclosures are set out in the Remuneration Report section of the Directors Report.

**(a) Key management personnel compensation:**

	2013 \$	2012 \$
Short-term employee benefits	2,017,366	1,801,518
Post-employment benefits	225,710	225,051
Other long term benefits	37,764	36,181
Termination benefits	-	-
Share-based payments	72,706	-
Total compensation	2,353,546	2,062,750

**(b) The number of options<sup>1</sup> held by directors and key management personnel for the year ended 30 June 2013 is as follows:**

	Balance at start of the year number	Granted as compensation during the year number	Exercised during the year number	Forfeited / Lapsed during the year number	Balance at end of the year number	Balance vested and exercisable at end of the year number	Balance vested and unexercisable at end of the year number	Balance unvested and exercisable at end of the year number	Balance unvested and/or unexercisable at end of the year number
Maurice Van Ryn	-	-	-	-	-	-	-	-	-
Richard David Kuo	-	-	-	-	-	-	-	-	-
Graham Henry Buckeridge	-	-	-	-	-	-	-	-	-
Robert Maxwell Johnston	-	-	-	-	-	-	-	-	-
Charles Wayne Stringer	1,500,000	1,500,000	-	(1,500,000)	1,500,000	-	-	-	1,500,000
Wesley Stringer	110,000	600,000	-	(50,000)	660,000	-	-	-	660,000
Dustin Stringer	100,000	400,000	-	(20,000)	480,000	-	-	-	480,000
Mark Chatfield	50,000	250,000	-	(25,000)	275,000	-	-	-	275,000
Humera Ahmad	35,000	250,000	-	(20,000)	265,000	-	-	-	265,000
Scott Patterson	-	250,000	-	-	250,000	-	-	-	250,000
Jared Stringer	75,000	400,000	-	(30,000)	445,000	-	-	-	445,000
	-	-	-	(1,645,000)	3,875,000	-	-	-	3,875,000

\*The executives have no access to the shares until expiry of 36 months of their employment with the company or an Associated Body Corporate from the date of grant of the shares. All shares are forfeited if the grantee resigns from the company prior to the expiry of 36 months from the date of grant of the shares.

Option<sup>1</sup> Holdings of Key Management Personnel for the year ended 30 June 2012:

	Balance at start of the year number	Granted as compensation during the year number	Exercised during the year number	Forfeited / Lapsed during the year number	Balance at end of the year number	Balance vested and exercisable at end of the year number	Balance vested and unexercisable at end of the year number	Balance unvested and exercisable at end of the year number	Balance unvested and unexercisable at end of the year number
Maurice Van Ryn	-	-	-	-	-	-	-	-	-
Richard David Kuo	-	-	-	-	-	-	-	-	-
Graham Henry Buckeridge	-	-	-	-	-	-	-	-	-
Robert Maxwell Johnston	-	-	-	-	-	-	-	-	-
Charles Wayne Stringer	2,200,000	-	-	(700,000)	1,500,000	-	-	-	1,500,000
Wesley Stringer	135,000	-	-	(25,000)	110,000	-	-	-	110,000
Dustin Stringer	120,000	-	-	(20,000)	100,000	-	-	-	100,000
Mark Chatfield	75,000	-	-	(25,000)	50,000	-	-	-	50,000
Humera Ahmad	60,000	-	-	(25,000)	35,000	-	-	-	35,000
Scott Patterson	-	-	-	-	-	-	-	-	-
Jared Stringer	95,000	-	-	(20,000)	75,000	-	-	-	75,000
	-	-	-	<b>(815,000)</b>	<b>1,870,000</b>	-	-	-	<b>1,870,000</b>

<sup>1</sup> The term Option includes unvested fully paid ordinary shares issues and the associated loans with recourse to the shares which are issued under the Probiotec Limited Employee Share Plan (ESP). These shares and loans together have substantially similar financial and economic dynamics to options. Other than the options issued to Wayne Stringer, all other "options" referred to in this table are shares and associated loans issued under the ESP.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**Ordinary share holdings of Key Management Personnel**

	Balance at 1/07/2011	Share acquisitions through exercise of share options	CEO Options Exercised	Other purchases during the year*	Sold during the year	Balance at 30/06/12	Share acquisitions through exercise of share options	CEO Options Exercised	Other purchases during the year*	Sold during the year	Balance at 30/06/13
<b>Directors</b>											
Maurice Van Ryn	281,101	-	-	525,000	-	806,101	-	-	185,021	-	991,122
Charles Wayne Stringer	7,828,643	-	-	529,209	-	8,357,852	-	-	317,934	-	8,675,786
Wes Stringer	272,811	-	-	287,934	-	560,745	-	-	64,878	(287,934)	337,689
Graham Harry Buckeridge	1,348,684	-	-	-	-	1,348,684	-	-	100,000	-	1,448,684
Robert Maxwell Johnston	203,000	-	-	31,000	-	234,000	-	-	73,215	-	307,215
Robin Tedder	5,262,334	-	-	-	-	5,262,334	-	-	-	-	5,262,334
Richard David Kuo	74,726	-	-	-	-	74,726	-	-	-	-	74,726
Total for Directors	15,271,299	-	-	1,373,143	-	16,644,442	-	-	741,048	(287,934)	17,097,556
<b>Key Executive Personnel</b>											
Scott Patterson	-	-	-	-	-	-	-	-	-	-	-
Jared Stringer	91,610	-	-	47,107	-	138,717	-	-	-	-	138,717
Mark Chatfield	-	-	-	-	-	-	-	-	-	-	-
Dustin Stringer	98,000	-	-	-	(21,000)	77,000	-	-	-	-	77,000
Humera Ahmad	-	-	-	-	-	-	-	-	-	-	-
Total for Key Executive Personnel	189,610	-	-	47,107	(21,000)	215,717	-	-	-	-	215,717

\* Includes on market purchases and dividend reinvestment plan allotments.

No equity instruments other than options were granted to key management personnel during the 2012 or 2013 financial years as compensation.

**9: REMUNERATION OF AUDITORS**2013  
\$2012  
\$

Amounts paid/payable to Moore Stephens Melbourne for:

**Audit services**

Auditing or reviewing the financial report

90,000

90,000

90,000

90,000

Amounts paid/payable to related practices of Moore Stephens Melbourne for:

Audit and taxation services from Moore Stephens Nathan

21,160

20,587

General advice and services from Moore Stephens Nathan

-

-

-

20,587

**10: DIVIDENDS**

No dividend has been declared or paid in relation to the financial years ended 30 June 2012 or 30 June 2013

2013  
Cents per  
ShareTotal  
\$2012  
Cents per  
ShareTotal  
\$**Recognised Amounts**

Fully Paid Ordinary Shares

Interim dividend for half year ended 31 December  
fully franked at 30% corporate tax rate

-

-

-

-

**Unrecognised Amounts**

Fully paid ordinary shares

Final dividend for year ended 30 June, fully  
franked at 30% corporate tax rate

-

-

-

-

2013  
\$2012  
\$**Dividend franking account**

Amount of franking credits available for subsequent years

1,157,405

1,157,405

**11: CASH AND CASH EQUIVALENTS**

Cash on hand and at bank

46,117

193,388

Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 34.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

**12: TRADE AND OTHER RECEIVABLES**

	2013 \$	2012 \$
<b>CURRENT</b>		
Trade accounts receivable - third parties	11,121,432	7,956,963
Less: allowance for impairment of receivables	(132,647)	(221,538)
Total current trade receivables	10,988,785	7,735,425
GST receivable	240,136	-
Other receivables	-	711,490
<b>Total current trade and other receivables</b>	<b>11,228,921</b>	<b>8,446,916</b>

**(a) An analysis of trade receivables that are past due but not impaired at the reporting date:**

	2013 Gross \$	2013 Allowance \$	2012 Gross \$	2012 Allowance \$
Not past due	10,206,362	-	6,954,482	-
Past due 1 - 30 days	738,588	-	511,179	-
Past due 31 - 60 days	43,412	-	200,518	-
Past 61 days	133,070	(132,647)	290,784	(221,538)
	<b>11,121,432</b>	<b>(132,647)</b>	<b>7,956,963</b>	<b>(221,538)</b>

**(b) Impaired trade receivables**

Trade debtors are generally extended on credit terms of between 14 days to 60 days. As at 30 June 2013, current trade receivables of the Group with a nominal value of \$133,070 (2012 - 290,784) were impaired. The amount of the allowance was \$132,647 (2012 - \$221,538). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

Trade receivables that are neither past due or impaired relate to long standing customers with a good payment history.

Other receivables are expected to be recoverable in full and are due from reputable companies.

Movements in the provision for impairment of receivables are as follows:

	2013 \$	2012 \$
At 1 July	<b>221,538</b>	<b>218,401</b>
Provision for impairment recognised / (reversed) during the year	(46,642)	47,056
Receivables written off during the year as uncollectible	(42,249)	(43,919)
At 30 June	<b>132,647</b>	<b>221,538</b>

Payment terms on receivables past due but not considered impaired have not been renegotiated. The Group has been in direct contact with the relevant customers and are reasonably satisfied that payment will be received in full.

#### (c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

#### (d) Foreign exchange and interest rate risk

Information about the Group's and the parent entity's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 30.

	2013 \$	2012 \$
<b>13: INVENTORIES</b>		
<b>CURRENT</b>		
Raw material - at cost	6,910,808	6,814,753
Work in progress - at cost	1,186,786	978,095
Finished goods - at cost	5,119,883	6,460,769
	<b>13,217,477</b>	<b>14,253,617</b>
<b>14: OTHER CURRENT ASSETS</b>		
Prepayments	260,950	489,770

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**15: PROPERTY, PLANT AND EQUIPMENT**

	2013 \$	2012 \$
Freehold land - at valuation	3,910,000	3,910,000
Building - at independent valuation	12,390,000	12,390,000
Less: Accumulated depreciation	(467,600)	-
	<b>11,922,400</b>	<b>12,390,000</b>
Plant & equipment - at cost (i)	43,131,084	38,654,058
Less: Accumulated depreciation	(12,656,288)	(11,996,957)
	<b>30,474,796</b>	<b>26,657,101</b>
Leased plant & equipment	8,958,151	6,648,812
Less: Accumulated depreciation	(2,285,155)	(1,667,450)
	6,672,995	4,981,362
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>52,980,191</b>	<b>47,938,462</b>

All of the Group's freehold land and buildings were revalued by an independent valuer in June 2012 and resulted in a net revaluation decrease of \$109,213. Valuations were made on the basis of weighted depreciated values and open market values. The revaluation deficit net of applicable deferred income taxes was credited to an asset revaluation reserve in shareholders' equity. As at 30 June 2013, if the cost model had been applied, the carrying value of the Group's freehold land and buildings would have been \$3,106,480 and \$8,508,771 respectively.

Movements during the year	Freehold land \$	Buildings \$	Plant, Equipment & Other \$	Leased Plant, Equipment & Other \$	Total \$
<b>Consolidated Group</b>					
Carrying amount at 1 July 2011	4,337,775	13,765,396	25,704,680	4,775,742	48,583,594
Additions	-	37,229	3,383,724	711,123	4,132,076
Impairment	-	-	-	-	-
Revaluation	165,600	(274,813)	-	-	(109,213)
Reclassification	-	(75,591)	-	-	(75,591)
Disposals	(593,375)	(421,575)	(336,480)	(111,783)	(1,463,213)
Depreciation and amortisation	-	(640,646)	(2,094,824)	(393,720)	(3,129,190)
Carrying amount at 30 June 2012	3,910,000	12,390,000	26,657,100	4,981,362	47,938,462
Carrying amount at 1 July 2012	3,910,000	12,390,000	26,657,100	4,981,362	47,938,462
Additions	-	-	5,811,311	2,309,338	8,120,649
Impairment	-	-	-	-	-
Revaluation	-	-	-	-	-
Reclassification	-	-	-	-	-
Disposals	-	-	(118,496)	-	(118,496)
Depreciation and amortisation	-	(467,600)	(1,875,119)	(617,705)	(2,960,424)
Carrying amount at 30 June 2013	3,910,000	11,922,400	30,474,796	6,672,995	52,980,191

(i) Pre-commercialised plant and equipment

Plant and equipment amounting to \$17,264,695 carried at cost relates to plant that is pre-commercialisation and therefore not depreciated. The plant is expected to be commissioned on or about September 2013. An impairment review has been carried out which the values the plant at a value higher than cost.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 16: INTANGIBLE ASSETS

	2013 \$	2012 \$
<b>(a) Intangible summary and reconciliation</b>		
Acquired intangible assets - indefinite life:		
Goodwill - at cost	2,079,000	2,079,000
Developed products - at cost	5,120,641	3,785,739
	<b>7,199,641</b>	<b>5,864,739</b>
Acquired intangible assets - finite life:		
Developed products - at cost	14,519,212	12,229,190
Accumulated amortisation	(632,109)	(552,005)
	<b>13,887,103</b>	<b>11,677,185</b>
Capitalised development costs - indefinite life:		
Developed products - at cost	-	2,789,600
Products under development - at cost	2,849,652	1,089,412
	<b>2,849,652</b>	<b>3,879,012</b>
Capitalised development costs - finite life:		
Developed products - at cost	6,178,810	7,564,624
Accumulated amortisation	(1,172,944)	(652,598)
	5,005,866	6,912,026
<b>Total intangible assets</b>	<b>28,942,262</b>	<b>28,332,961</b>

Probiotec Ltd has both acquired and capitalised trademarks, licenses, product development costs and product dossiers ("Developed Products"). Product dossiers incorporate formulations, registrations, Therapeutic Goods Administration (TGA) listings, stability and validation data, and manufacturing and testing procedures.

## Reconciliation of Intangible Assets:

	Goodwill	Developed Products	Products under Development	Total
Opening balance as at 1 July 2011	2,079,000	26,119,298	1,360,555	29,558,853
Acquisitions	-	499,649	-	499,649
Additions	-	806,074	1,290,852	2,096,926
Transfer of commercialised product	-	1,561,995	(1,561,995)	-
Disposals	-	(3,126,895)	-	(3,126,895)
Impairment	-	(1,245)	-	(1,245)
Amortisation	-	(694,327)	-	(694,327)
<b>Closing balance as at 30 June 2012</b>	<b>2,079,000</b>	<b>25,164,549</b>	<b>1,089,412</b>	<b>28,332,961</b>
Opening balance as at 1 July 2012	2,079,000	25,164,549	1,089,412	28,332,961
Acquisitions	-	-	-	-
Additions	-	628,142	681,739	1,309,881
Transfer of commercialised product	-	-	-	-
Disposals *	-	(100,130)	-	(100,130)
Impairment	-	-	-	-
Amortisation	-	(600,450)	-	(600,450)
<b>Closing balance as at 30 June 2013</b>	<b>2,079,000</b>	<b>25,092,111</b>	<b>1,771,151</b>	<b>28,942,262</b>

\* On 10 May 2013, the Company completed the sale of its animal nutrition brands, including all intellectual property and business assets associated with these brands. The sale price of \$900,000 resulted in an item of other income (see Note 6 for details) and a reduction in intangible assets of \$100,130 (being the intangible asset balance applicable to these brands).

**Estimated useful life of intangible assets**

Intangible assets, comprising Developed Products and goodwill, have indefinite useful lives apart from Developed Products which are subject to a license with a specified term. Developed Products with a finite life have a term of 10 to 40 years. Developed Products with indefinite lives comprise trademarks and product dossiers. Developed Products with finite useful lives are amortised on a straight line basis over their effective life. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the income statement. The directors consider intangibles to have an indefinite life when, based on an analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cashflows for the group.

**Goodwill**

	2013 \$	2012 \$
Breakdown of goodwill at year end:		
Australian Dairy Proteins Pty Ltd	2,079,000	2,079,000
	2,079,000	2,079,000

**Impairment of Intangibles***Developed products*

As at 30 June 2013, no impairment charges were incurred in relation to developed products which no longer generate future cash flows sufficient to justify their carrying value.

**Impairment Disclosures**

Goodwill is tested annually for impairment, based on value-in-use calculations conducted using the assumptions outlined in note 7.

The amount of goodwill and intangible assets with indefinite useful lives allocated to each cash-generating unit for the purposes of annual impairment testing are:

	Pharmaceuticals and consumer health	Contract manufacturing	Nutritional products	Export sales	Research and development	Total
<b>Year ended 30 June 2013</b>						
Goodwill	2,079,000	-	-	-	-	2,079,000
Intangibles with indefinite useful lives	7,970,293	-	-	-	-	7,970,293
<b>Year ended 30 June 2012</b>						
Goodwill	2,079,000	-	-	-	-	2,079,000
Intangibles with indefinite useful lives	6,420,949	-	100,130	1,143,672	-	6,420,949

The discount rates used to determine the value-in-use are:

	2013 \$	2012 \$
Probiotec BLC Pty Ltd	12.4%	12.4%
Australian Dairy Proteins Pty Ltd	12.4%	12.4%
Intangibles with indefinite useful lives	12.4%	12.4%



## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2013 \$	2012 \$
<b>17: DEFERRED TAX ASSETS</b>		
Deferred tax assets is comprised as follows:		
Temporary differences - provisions	447,051	461,050
Temporary differences - Property, plant & equipment	474,564	166,145
Temporary differences - leases	1,140,633	829,030
Temporary differences - other	815,842	168,765
Offset against deferred tax liabilities	(2,139,538)	(2,950,521)
Tax losses	2,448,097	2,835,810
	<b>3,186,649</b>	<b>1,510,279</b>
<b>18: TRADE AND OTHER PAYABLES</b>		
Trade accounts payable	9,390,223	7,511,362
Sundry creditors & accruals	3,297,147	2,164,986
GST payable	1,080,214	537,374
	<b>13,767,584</b>	<b>10,213,722</b>

**(a) Fair value**

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

**(b) Foreign exchange risk**

<u>Amounts payable in foreign currencies</u>	2013 \$	2012 \$
<b>Current</b>		
Euro	59,480	200,388
Great British Pounds	61,257	161,465
US Dollars	387,263	764
NZD	-	1,121
	<b>508,000</b>	<b>363,738</b>

Detailed information about the Group's and the parent entity's exposure to foreign currency risk in relation to trade and other payables is provided in note 30.

	2013 \$	2012 \$
<b>19: INTEREST-BEARING LIABILITIES</b>		
<b>Current</b>		
Secured borrowings		
Bank loans	22,288,610	20,915,968
Lease liabilities	1,342,501	863,448
	<b>23,631,111</b>	<b>21,779,416</b>
<b>Non-Current</b>		
Secured borrowings		
Bank loans	50,000	150,000
Lease liabilities	2,459,610	1,899,986
	<b>2,509,610</b>	<b>2,049,986</b>
<b>(a) Total current and non-current secured liabilities:</b>		
Bank loans	22,338,610	21,065,968
Lease liabilities	3,802,111	2,763,434
	<b>26,140,721</b>	<b>23,829,402</b>
<b>(b) The carrying amount of the assets secured by a first registered mortgage:</b>		
Freehold land and building (Note 15)	15,832,400	16,300,000

**(c)** The bank loans are provided by Rabo Australia Limited and are secured by a registered first mortgage over all freehold property of the parent entity and the subsidiaries which in total have a carrying amount of \$15,832,400 at 30 June 2013.

The bank covenants require tangible net worth to exceed \$35 million, an equity ratio of greater than 50%, debt service to EBITDA to exceed 1.25 and the ratio of financial indebtedness to EBITDA of less than 4 as at 30 June 2013, where EBITDA excludes extraordinary and/or non-cash events. The Group is in compliance with the bank covenants.

The bank loans provided by Commonwealth Bank and Rabo Australia Limited are secured by cross guarantees between Probiotec Limited and its controlled entities.

**(d) Finance lease liabilities:**

Weighted average interest rate of 7.87%

Secured by leased plant / assets

Finance leases are entered into with the Commonwealth Bank of Australia and Rabo Australia Limited. The lease terms are from 3 to 5 years. Finance leases may be extended at the expiry of their term by negotiation with the lease finance provider.

**(e) Interest rate risk exposure**

The Group's and the parent entity's exposure to interest rate risk is discussed in note 30.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2013 \$	2012 \$
<b>20: PROVISIONS</b>		
<b>Current</b>		
Leave entitlements (a)	1,056,165	969,210
<b>Non-Current</b>		
Leave entitlements (a)	434,007	348,006
<b>Total provisions</b>	<b>1,490,172</b>	<b>1,317,216</b>

**(a)** Provision for leave entitlements represents accrued annual leave along with an allowance for long service leave either earned by employees and not yet taken or partly earned. For partly earned long service leave, historical retention rates are used to determine likelihood of achieving fully vested long service leave.

**21: DEFERRED TAXES**

Deferred taxes is comprised as follows:

Deferred tax assets (note 17)	5,326,187	1,510,279
Deferred tax liabilities - temporary differences (a)	(7,084,358)	(3,330,902)
Net deferred tax liabilities	<b>(1,758,171)</b>	<b>(1,820,623)</b>
<b>Deferred tax expense debit / (credit) to income tax expense</b>	<b>71,803</b>	<b>8,367</b>
<b>Deferred tax expense charged to equity</b>	<b>-</b>	<b>73,761</b>
<b>(a) Deferred tax liabilities comprises:</b>		
Temporary differences - property, plant & equipment	(2,001,899)	(1,494,409)
Temporary differences - capitalised development costs	(3,219,745)	(2,891,322)
Temporary differences - other	(1,862,715)	1,054,829
	<b>(7,084,358)</b>	<b>(3,330,902)</b>

Reconciliation of net deferred tax liabilities:

Opening as at 1 July 2011	(1,886,017)	
Less : deferred tax expense charge (credit) to income	(8,367)	
Less : deferred tax expense charged to equity	73,761	
Closing as at 30 June 2012	(1,820,623)	
Less : deferred tax benefit	71,803	
Less : deferred tax expense charged to equity	(9,351)	
<b>Closing as at 30 June 2013</b>	<b>(1,758,171)</b>	

	2013 \$	2012 \$
<b>22: CONTRIBUTED EQUITY</b>		
52,929,356 (2012: 52,929,356) fully paid ordinary shares	33,686,519	33,686,519
<b>Reconciliation of fully paid ordinary shares</b>		
Balance at beginning of the financial year	33,563,021	35,072,269
Issue of shares	-	-
Cancellation of shares held under Equity Compensation Plan	-	(1,509,248)
Equity raising expenses	-	-
<b>Balance at end of financial year</b>	<b>33,563,021</b>	<b>33,563,021</b>
	2013 No.	2012 No.
<b>Reconciliation of ordinary shares</b>		
Balance at the beginning of reporting period	52,929,356	52,929,356
Shares issued during the year	-	-
<b>Balance at end of the report date</b>	<b>52,929,356</b>	<b>52,929,356</b>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the numbers of shares. At the shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholders has one vote on a show of hands.

#### (a) Capital management

The Group's objective is to maintain a strong capital base to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain an optimal capital structure to reduce the cost of capital.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. The Group is not subject to externally imposed capital requirements other than those set out in Note 19.

The Group effectively manages the Group's capital by monitoring its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The level of gearing in the Group is periodically reviewed by the Board to ensure that a responsible level of gearing is maintained. The directors consider that the Group is currently operating at a responsible gearing level. The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

	2013 \$	2012 \$
Total borrowings	26,140,721	23,829,402
Less cash and cash equivalents	(46,117)	(193,388)
Net debt	26,094,604	23,636,014
Total contributed equity	33,686,519	33,686,518
<b>Total capital employed</b>	<b>59,781,123</b>	<b>57,322,532</b>
Gearing ratio	43.7%	41.2%

There were no changes to the Group's approach to capital management from 2012.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2013 \$	2012 \$
<b>23: RESERVES</b>		
Asset revaluation reserve	4,217,150	4,217,149
Equity translation reserve	(210,355)	(658,425)
<b>Reconciliation of asset revaluation reserve</b>		
Balance at beginning of financial year	4,217,149	4,523,385
Revaluation of assets	-	(306,236)
<b>Balance at end of financial year</b>	<b>4,217,149</b>	<b>4,217,149</b>
<b>Reconciliation of foreign currency translation reserve</b>		
Balance at beginning of financial year	(658,425)	(681,306)
Translation of net investment in foreign entities	448,070	(362,886)
Impairment of net investment in foreign entities	-	385,767
<b>Balance at end of financial year</b>	<b>(210,355)</b>	<b>(658,425)</b>

Asset revaluation reserves arise on the revaluation of non-current assets.

Where a revalued asset is sold that portion of the reserve which relates to that asset, and is effectively realised, is transferred to retained earnings.

Foreign currency translation reserves arise upon the translation of net investments in foreign entities at balance date.

	2013 \$	2012 \$
<b>24: COMMITMENTS</b>		
<b>Lease commitments</b>		
<b>Operating leases</b>		
Non-cancellable operating leases contracted for but not capitalised in the financial statement.		
Payable - minimum lease payments:		
Within one year	340,933	406,991
Later than one year but not later than 5 years	392,797	659,969
Commitments not recognised in the statement of financial position	733,730	1,066,960
<b>Finance leases commitments</b>		
Payable - minimum lease payments:		
Within one year	1,469,812	1,026,150
Later than one year but not later than 5 years	2,584,332	2,020,602
Minimum lease payments	4,054,144	3,046,752
Less: Future finance charges	(252,033)	(283,318)
	<b>3,802,111</b>	<b>2,763,434</b>
<b>Representing lease liabilities (Note 19):</b>		
Current	1,342,501	863,448
Non-current	2,459,610	1,899,986
	<b>3,802,111</b>	<b>2,763,434</b>

The weighted average interest rate implicit in the leases is 7.87%. The carrying value of assets purchased via leases is \$6,672,995 (2012: \$4,981,362).

Leases are entered into with terms between 3 to 5 years. Operating leases are entered into for rental of sites, plant, equipment and vehicles. Finance leases are entered into for the purchase of various items of property, plant and equipment. Leased property is held at all of the group's Australian based manufacturing sites. Leases may be renewed by negotiation. No contingent rents are payable under any lease contract entered into. The group also entered into an operating lease for the rental of its manufacturing site in Dundalk, Ireland. This is a 20 year lease with a right for the group to terminate at any time after the expiry of the third year of the lease without penalty.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

**25: SHARE BASED PAYMENTS****(a) Incentive Option Scheme**

The Group has in place an option incentive scheme to encourage employees to share in the ownership of the company in order to promote the long-term success of the company as a goal shared by the employees. This scheme is designed to attract, motivate and retain eligible employees. These options are governed by the Probiotec Limited Employee Share Plan ("the plan"). Under the plan, participants may be granted options which vest if the participant remains in the employment of the group for a period of three years from the grant date. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed amount of options. For details of options issued to key management personnel refer to the remuneration report.

**CEO Employment Options for the year ended 30 June 2013**

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted number	Options forfeited/ exercised number	Balance at end of year number	Vested and exercisable at end of year
23.11.2012	23.11.2014	23.11.2015	0.70	-	1,500,000	-	1,500,000	-
05.08.2008	30.06.2010	30.06.2013	1.50	500,000	-	(500,000)	-	-
05.08.2008	30.06.2011	30.06.2013	1.75	500,000	-	(500,000)	-	-
05.08.2008	30.06.2012	30.06.2013	2.00	500,000	-	(500,000)	-	-
				1,500,000	1,500,000	(1,500,000)	1,500,000	-
Weighted average exercise price				\$1.75	\$0.70	\$1.75	\$0.70	\$-

The weighted average contractual life remaining on CEO options outstanding is 583 days as at balance date.

**CEO Employment Options for the year ended 30 June 2012**

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted number	Options forfeited/ exercised number	Balance at end of year number	Vested and exercisable at end of year
05.08.2008	30.06.2010	30.06.2013	1.50	500,000	-	-	500,000	-
05.08.2008	30.06.2011	30.06.2013	1.75	500,000	-	-	500,000	-
05.08.2008	30.06.2012	30.06.2013	2.00	500,000	-	-	500,000	-
01.07.2009	30.06.2012	30.06.2012	1.00	300,000	-	(300,000)	-	-
01.07.2009	30.06.2012	30.06.2012	1.00	400,000	-	(400,000)	-	-
				2,200,000	-	(700,000)	1,500,000	-
Weighted average exercise price				\$1.51	\$-	\$1.00	\$1.75	\$-

**Employee incentive scheme options for the year ended 30 June 2013**

The following incentive scheme options were issued to eligible employees, including key management personnel (excluding the CEO):

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
01.07.2008	30.06.2011	30.06.2013	1.50	305,000	-	(305,000)	-	-
30.06.2009	30.06.2012	30.06.2014	2.35	385,000	-	-	385,000	-
01.07.2009	30.06.2012	30.06.2014	2.35	10,000	-	-	10,000	-
24.11.2012	23.11.2014	23.11.2015	0.70	-	600,000	-	600,000	-
01.07.2012	30.06.2014	30.06.2015	0.70	-	2,275,000	-	2,275,000	-
				700,000	2,875,000	(305,000)	3,270,000	-
Weighted average exercise price				\$1.35	\$0.70	\$1.50	\$1.22	\$-

**Employee incentive scheme options for the year ended 30 June 2012**

The following incentive scheme options were issued to eligible employees, including key management personnel (excluding the CEO):

Grant Date	Vesting date	Expiry date	Exercise price (\$)	Balance at start of year number	Options granted during the year number	Options exercised/lapsed during the year number	Balance at end of year number	Vested and exercisable at end of year
01.07.2007	30.06.2010	30.06.2012	1.50	240,000	-	(240,000)	-	-
01.07.2008	30.06.2011	30.06.2013	1.50	305,000	-	-	305,000	-
30.06.2009	30.06.2012	30.06.2014	2.35	385,000	-	-	385,000	-
01.07.2007	30.06.2010	30.06.2012	0.80	50,000	-	(50,000)	-	-
01.07.2009	30.06.2012	30.06.2014	2.35	10,000	-	-	10,000	-
				990,000	-	(290,000)	700,000	-
Weighted average exercise price				\$1.35	\$-	\$1.38	\$1.98	\$-

The weighted average contractual life remaining on employee incentive scheme options outstanding is 730 days as at balance date.

The fair value at grant date of the options issued as part of the employee incentive scheme were calculated internally using the Black Scholes pricing model that takes into account the term of the option, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

The inputs used in the valuation of these options were:

Exercise price:	as per table above.
Expected volatility of company shares:	48%
Risk-free interest rate:	5%
Vesting period:	2 years
Projected dividend yield:	4%
Share price:	weighted average share price for 5 trading days preceeding grant date.

<sup>1</sup> The term Option includes unvested fully paid ordinary shares issues and the associated loans with recourse to the shares which are issued under the Probiotec Limited Employee Share Plan (ESP). These shares and loans together have substantially similar financial and economic dynamics to options. Other than the options issued to Wayne Stringer, all other "options" referred to in this note are shares and associated loans issued under the ESP.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**(b) Expenses arising from share-based payments**

	2013 \$	2012 \$
Options issued under incentive option scheme	32,700	-
Options issued to CEO	29,006	-
	<b>61,706</b>	<b>-</b>

**26: RELATED PARTY TRANSACTIONS AND BALANCES**

Transactions between related parties are on normal commercial terms and conditions no favourable than those available to other parties unless otherwise stated. No balances have been written off and no provision for doubtful debts has been made against any balances with related parties.

**Associated companies**

Payments were made to Pier Capital Pty Ltd, an entity associated with Mr Richard Kuo (director).

These payments were for the provision of financial modelling services performed	-	35,000
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**Key Management personnel**

There were no transactions between Key Management Personnel and Probiotec Limited or any of its subsidiaries during the year ended 30 June 2013 other than as disclosed in note 8.

**Identification of Related Parties - Ultimate Parent Entity**

The ultimate parent company is Probiotec Limited which is incorporated in Australia.

	2013 \$	2012 \$
<b>27: NOTES TO THE STATEMENT OF CASH FLOWS</b>		
<b>(a) Financing facilities with banks</b>		
Secured bank overdraft facility:		
Facility balance	1,500,000	1,500,000
Amount used	(1,427,584)	-
Amount unused	72,416	500,000
Secured term loan and working capital facilities with banks:		
Facility balance	23,340,000	26,147,500
Amount used	(22,338,610)	-
Amount unused	1,001,390	26,147,500
Lease finance facilities:		
Facility balance	12,000,000	12,000,000
Amount used	(3,802,111)	(2,763,434)
Amount unused	8,197,889	9,236,566
Bank bill acceptance facility, reviewed annually:		
Facility balance	250,000	250,000
Amount used	(250,000)	(250,000)
Amount unused	-	-
<b>(b) Reconciliation of Profit from Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities:</b>		
Profit after related income tax	596,869	1,249,380
Depreciation and amortisation	3,560,874	3,824,259
Loss / (profit) on sale of plant and equipment	(155,375)	(486,447)
Loss / (profit) on sale of intangible assets	(690,607)	(2,856,205)
Impairment and reclassification costs	617,639	1,378,193
Equity translation	(634,951)	(669,122)
(Decrease)/increase in net deferred taxes	(62,272)	(65,394)
(Increase)/decrease in inventories	1,036,140	559,644
(Increase)/decrease in trade and other receivables	(2,782,006)	1,803,391
(Increase)/decrease in other current assets	228,820	(74,465)
Increase/(decrease) in trade and other payables	3,553,862	(1,258,069)
Increase/(decrease) in tax liabilities	-	(3,071)
Increase/(decrease) in provisions	172,955	141,432
Net cash from operating activities	5,441,948	3,543,526

**Non-cash financing and investing activities:**

During the year the economic entity acquired plant and equipment with an aggregate value of \$1,827,446 (2012: \$273,081) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2013 \$	2012 \$
<b>28: EARNINGS PER SHARE</b>		
Profit	596,869	1,249,379
Earnings used in the calculation of basic EPS	596,869	1,249,379
Earnings used in the calculation of dilutive EPS	596,869	1,249,379
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	52,929,356	52,929,356
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	52,929,356	52,929,356
Earnings per share:		
Basic earnings per share (cents)	1.1	2.4
Diluted earnings per share (cents)	1.1	2.4
Earnings per share from discontinued operations:		
Basic earnings per share (cents)	(1.7)	(1.9)
Diluted earnings per share (cents)	(1.7)	(1.9)

**29: COMPANY DETAILS**

The registered office of the company is:  
Probiotec Limited, 83 Cherry Lane, Laverton North VIC 3026

The principal places of businesses are:  
83 Cherry Lane, Laverton VIC  
36 Bolong Road, Bomaderry NSW  
35 Norfolk Avenue, South Nowra NSW  
Finnabair Industrial Park, Dundalk, IRE

**30: FINANCIAL INSTRUMENTS****Financial Risk Management**

The Group's financial instruments consist mainly of receivables, payables, bank loans and overdrafts, finance leases, loans from related parties, cash and short-term deposits.

The Board of Directors has overall responsibility for establishment and oversight of the risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for approving and reviewing the Group's financial risk management strategy and policy. The Group manages its exposure to key financial risks in accordance with the Group's risk management policy approved by the Board of Directors to enable the risks to be balanced against appropriate rewards for the taking and managing of the risks.

Risk management policies are established to identify, assess and control the risks which affects its business and are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures including the review of the adequacy of the risk management framework with respect to the risks faced by the Group.

## Financial Risks

The main risks the Group is exposed to through its financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk.

### (a) Market risk

#### (i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures when it undertakes sale and purchase of goods and services in currencies other than the Group's measurement currency, primarily with respect to the British Pound, US dollar and the Euro. The Group seeks to mitigate the effect of its foreign currency exposure by maintaining foreign currency bank accounts that match the cash flows generated from and used by the underlying foreign currency transactions.

There has been no change to the Group's exposure to foreign currency risk or the manner in which the Group manages and measures the risk from previous period.

The Group's exposure to foreign currency risk at the reporting date was as follows:

#### Consolidated Group

2013	GBP			
\$	NZD			
\$	USD			
\$	EUR			
\$				
<b>Financial Assets</b>				
Trade and other receivables	855,014	93,065	23,118	51,574
<b>Financial Liabilities</b>				
Trade and other payables	61,257	-	387,263	59,480
<b>Net exposure</b>	<b>793,757</b>	<b>93,065</b>	<b>(364,145)</b>	<b>(7,906)</b>
<b>2012</b>				
<b>Financial Assets</b>				
Trade and other receivables	684,939	274,436	83,227	154,444
<b>Financial Liabilities</b>				
Trade and other payables	161,465	1,121	764	200,388
<b>Net exposure</b>	<b>523,474</b>	<b>273,315</b>	<b>82,463</b>	<b>(45,944)</b>

#### Sensitivity analysis

Based on the financial instruments held as at 30 June 2013, a 10% strengthening of Australian dollar against GBP, 15% strengthening of Australian dollar against the New Zealand dollar (NZD), 10% strengthening of Australian dollar against US dollar and a 10% strengthening of Australian Dollar against EUR at 30 June would have increased / (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2012.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	Profit \$	Equity \$
<b>2013</b>		
GBP	(72,160)	-
NZD	(12,139)	-
US dollars	33,104	-
EUR	719	-
<b>2011</b>		
GBP	(47,589)	-
NZD	(35,650)	-
US dollars	(7,497)	-
EUR	4,177	-

A 10% weakening of Australian dollar against GBP, 15% weakening of Australian dollar against NZD, 10% weakening of Australian dollar against US dollar and a 10% weakening of Australian dollar against EUR at 30 June would have the equal but opposite effect on GBP, US dollar and NZD to the amount shown above on the basis that other variables remain constant.

*(iii) Interest rate risk*

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. The level of debt is disclosed in note 19. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group constantly analyses its interest rate exposure. The Group's current approach is to maintain approximately 10% - 50% of its borrowings at fixed rate using floating-to-fixed interest rate swaps and/or fixed rate leasing to achieve this. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. These swaps are designated to hedge the underlying debt obligations. During 2012 and 2013, the Group's borrowings at variable rates were denominated in Australian Dollars.



As at the reporting date, the Group had the following financial assets and liabilities exposed to variable interest rate risk:

	Weighted average interest rate %	Floating interest rate maturing			Total \$
		1 year or less \$	Over 1 to 5 years \$	More than 5 years \$	
<b>2013</b>					
Financial assets:					
Cash	2.90	46,117	-	-	46,117
Total financial assets		46,117	-	-	46,117
Financial Liabilities:					
Loans and overdraft	5.80	22,288,610	50,000	-	22,338,610
Total financial liabilities		22,288,610	50,000	-	22,338,610
<b>Net exposure</b>		<b>(22,242,493)</b>	<b>(50,000)</b>	<b>-</b>	<b>(22,292,493)</b>

	Weighted average interest rate %	Floating interest rate maturing			Total \$
		1 year or less \$	Over 1 to 5 years \$	More than 5 years \$	
<b>2012</b>					
Financial assets:					
Cash	2.90	193,388	-	-	193,388
Total financial assets		193,388	-	-	193,388
Financial Liabilities:					
Loans and overdraft	7.49	20,915,968	150,000	-	21,065,968
Total financial liabilities		20,915,968	150,000	-	21,065,968
<b>Net exposure</b>		<b>(20,722,580)</b>	<b>(150,000)</b>	<b>-</b>	<b>(20,872,580)</b>

#### Sensitivity analysis

Based on the financial assets and liabilities held as at 30 June 2013, an increase in interest rates would have the following financial impact on the Group. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2012.

	Profit \$
<b>2013</b>	
1%	(222,925)
2%	(445,850)
<b>2012</b>	
1%	(208,726)
2%	(417,452)

A reduction in interest rates at 30 June would have the equal but opposite effect to the amount shown above on the basis that other variables remain constant.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**(b) Liquidity risk**

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments such as borrowing repayments.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of available funding through an adequate amount of committed credit facilities such as bank overdrafts, bank loans and finance leases.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and to have sufficient liquidity to meet its liabilities when due.

In addition, the Group had access to approximately \$9.2 million undrawn credit facilities available for use at the reporting date which would further reduce the liquidity risk. For further details see note 27(a).

**Maturities of financial liabilities**

		Consolidated Group			
	Carrying amount \$	Total contractual cash flows \$	Less than 6 months \$	6 - 12 months \$	1 - 5 years \$
<b>2013</b>					
<b>Non-derivatives financial liabilities</b>					
Trade and other payables	13,767,584	13,767,584	13,446,584	321,000	-
Fixed borrowings (including finance leases)	3,802,111	4,054,144	734,906	734,906	2,584,332
Variable borrowings	22,338,610	22,338,610	675,000	675,000	20,988,610
	39,908,305	40,160,338	14,856,490	1,730,906	23,572,942
<b>2012</b>					
<b>Non-derivatives financial liabilities</b>					
Trade and other payables	10,213,722	10,213,722	9,892,722	321,000	-
Fixed borrowings (including finance leases)	2,763,434	3,046,752	513,075	513,075	2,020,602
Variable borrowings	21,065,968	22,619,870	1,650,343	4,931,543	16,037,984
	34,043,124	35,880,344	12,056,140	5,765,618	18,058,586

**(c) Credit risk**

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents as well as credit exposures to customers, including outstanding receivables from subsidiaries and financial guarantees given to entities within the Group. 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 reporting date is addressed in Note 12.

The Group's policy is to trade with recognised and credit-worthy third parties and as such no collateral is required. The Group manages its credit risk by assessing the credit quality and financial position of its customers including past experience and other factors. In addition, receivable balances are monitored on an ongoing basis minimising the exposure to bad debts. The Group has also taken out a credit insurance policy that applies to all approved debtors. This policy provides insurance for 90% of the invoiced value outstanding based on pre-defining maximum credit limits agreed between the group and the insurer.

**(d) Price risk**

The Group is not exposed to any commodity and equity securities price risk. Most of the raw materials are sourced through importing agents and major suppliers in the local milk powder industry and the Group does not actively trade in equity investments.

**(e) Fair values**

The fair values of loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value. For forward exchange contracts the fair value is the recognised unrealised gain or loss at reporting date determined from the current forward exchange rates for contracts with similar maturities.

For other assets and other liabilities the fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rates swaps. Financial assets where the carrying amount exceeds fair values have not been written down as the economic entity intends to hold these assets to maturity.

There has been no change to the Group's method of calculating fair values of financial assets and financial liabilities since last year.

	2013		2012	
	Carrying Amount \$	Net Fair Value \$	Carrying Amount \$	Net Fair Value \$
<b>Financial Assets</b>				
Trade & other current receivables	11,228,921	11,228,921	8,446,915	8,446,915
Cash	46,117	46,117	193,388	193,388
	11,275,038	11,275,037	8,640,303	8,640,303
<b>Financial Liabilities</b>				
Trade & others payables	13,767,584	13,767,584	10,213,722	10,213,722
Short term borrowings	22,288,610	22,288,610	20,915,968	20,915,968
Long term borrowings	50,000	50,000	150,000	150,000
Lease liability	3,802,111	3,802,111	2,763,434	2,763,434
	39,908,305	39,908,305	34,043,124	34,043,124

Fair values are materially in line with carrying values for all financial assets and liabilities.

### 31: PARENT ENTITY INFORMATION

The following details information related to the parent entity, Probiotec Limited, at 30 June 2013.

The information presented here has been prepared using consistent financial statements.

	2013 \$	2012 \$
Current assets	55,705,484	43,300,914
Non-current assets	22,143,159	26,197,619
<b>Total Assets</b>	<b>77,848,643</b>	<b>69,498,533</b>
Current Liabilities	34,000,313	26,168,552
Non-current liabilities	6,598,178	4,139,900
<b>Total Liabilities</b>	<b>40,598,491</b>	<b>30,308,452</b>
Contributed equity	35,072,269	35,072,269
Retained earnings	(365,993)	1,573,936
Equity Compensation Plan	(1,385,750)	(1,385,750)
Other reserve	3,929,626	3,929,626
<b>Total equity</b>	<b>37,250,152</b>	<b>39,190,081</b>
Profit / (loss) for the year	(1,939,929)	(6,336,147)
Other Comprehensive income for the year	-	192,771
<b>Total comprehensive income for the year</b>	<b>(1,939,929)</b>	<b>(6,143,376)</b>

The parent company has not guaranteed any loans held by its subsidiaries other than as part of the cross guarantees set out in Note 19 (c).

The parent entity is subject to contractual obligations in regards to the group's interest bearing liabilities as detailed in note 19. All finance leases held by the group (see note 24) are held by the parent entity.

32: SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect, the consolidated entity’s operations, the results of those operations, or the consolidated entity’s state of affairs in financial years after the financial year.

33: SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on reports reviewed by the executive management committee for making strategic decision. The executive management committee comprises the chief executive officer, chief financial officer and divisional managers. The committee monitors the business based on product and geographic factors and have identified 5 reportable segments.

Pharmaceuticals and consumer health

The pharmaceuticals and consumer health segment involves the sale of branded pharmaceutical products (both owned and licensed brands) along with the sale of a range of weight management products throughout Australia.

Contract manufacture

The Contract manufacturing segment involves the contract manufacturing of pharmaceutical, food and animal nutrition products on behalf of domestic and international pharmaceutical and food companies.

Nutritional products

The nutritional products segment is involved in the sale of human and animal nutrition products along with the sale of ingredients and additives for use in the pharmaceutical and food industries.

Export sales

The export sales segment is involved in the sale of products to markets outside of Australia. Product sales included in this segment are excluded from other segment figures.

Research and Development

The Research and Development segment is involved in the research and development of a range of innovative products and drugs for both domestic and international markets. This segment also involves the development of intellectual property to support the commercialisation of product in development by undertaking research, clinical trials, regitartions and other activities.

Business Segments	Segment name
Segment 1	Pharmaceuticals and consumer health
Segment 2	Contract manufacturing
Segment 3	Nutritional products
Segment 4	Export sales
Segment 5	Research & Development

	Segment 1 \$	Segment 2 \$	Segment 3 \$	Segment 4 \$	Segment 5 \$	Consolidated \$
<b>Year ended 30 June 2013</b>						
Revenue from discontinued operations	-	-	2,239,077	-	-	2,239,077
Revenue from external customers	35,445,162	23,729,543	1,036,212	7,131,966	-	67,342,884
Total segmental revenue	35,445,162	23,729,543	3,275,289	7,131,966	-	69,581,961
Loss from discontinued operations	-	-	(875,617)	-	-	(875,617)
Segmental profit from continuing operations	6,067,092	2,977,244	419,861	202,711	(2,127,247)	7,539,661
Total segmental profit	6,067,092	2,977,244	(455,756)	202,711	(2,127,247)	6,664,044
Interest						(1,598,713)
Unallocated other income						-
Unallocated corporate expenses						(4,396,661)
Total unallocated income / (expense)						(5,995,374)
Profit from continuing activities before income tax						1,544,289
Loss from discontinued operations before income tax						(875,617)
						668,672
<b>Year ended 30 June 2012</b>						
Revenue from discontinued operations	-	-	-	418,814	-	418,814
Revenue from external customers	35,706,162	17,514,134	4,484,168	8,341,725	-	66,046,188
Total segmental revenue	35,706,162	17,514,134	4,484,168	8,760,539	-	66,465,002
Loss from discontinued operations	-	-	-	(979,870)	-	(979,870)
Impairment costs - continuing operations	-	-	-	(1,245)	-	(1,245)
Segmental profit from continuing operations	6,791,353	2,024,184	710,068	987,065	(2,183,790)	8,328,880
Total segmental profit	6,791,353	2,024,184	710,068	5,951	(2,183,790)	7,347,765
Interest						(2,011,984)
Unallocated other income						92,010
Unallocated corporate expenses						(4,170,046)
Total unallocated income / (expense)						(6,090,020)
Loss from continuing activities before income tax						2,237,617
Loss from discontinued operations before income tax						(979,870)
						1,257,747

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2013 \$	2012 \$
<b>(b) Reconciliation of segmental revenue to total revenue</b>		
Segmental revenue	69,581,960	66,465,002
Interest received	10,241	119,657
Total revenue	69,592,201	66,584,659

**(c) Segment revenue**

Sales between segments (if they occur) are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the board is measured in a manner consistent with that in the statement of comprehensive income.

Revenues from external customers are derived from the sale of products on both a wholesale and business-to-business basis from each of the business segments outlined earlier in this note. A breakdown of revenue is provided in the tables above.

**(d) Segment profit**

The board assesses the performance of the operating segments based on a measure of adjusted EBIT. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. This measurement basis also excludes the effects of any non-recurring items of revenue or income. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

**(e) Entity wide information**

The gross revenue in each region where significant export revenue is achieved for the year was:

	Australia \$	New Zealand \$	European Union \$	United States of America \$	Other \$
Gross Revenue for year ended 30 June 2013	61,634,728	1,396,592	5,696,227	68,454	785,960
Gross Revenue for year ended 30 June 2012	57,185,897	1,257,331	6,893,480	574,804	553,490

Revenues of approximately \$9,305,372 and \$5,512,136 (2012: \$10,371,556 and \$8,672,626) are derived from two major external customers included in the pharmaceutical and consumer health and contract manufacturing segments respectively.

**(f) Segment assets**

No disclosure of segment assets has been made as this information is not provided to the chief decision maker on a regular basis.

# DIRECTORS' DECLARATION

## PROBIOTEC LIMITED AND ITS CONTROLLED ENTITIES

ACN 075 170 151

### DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the consolidated entity.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. 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.
4. The remuneration disclosures included in pages 21 to 28 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2013, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Charles Wayne Stringer  
Director

*Dated at Laverton this 22nd day of August 2013*



# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PROBIOTEC LIMITED

## MOORE STEPHENS

ACCOUNTANTS & ADVISORS

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Melbourne VIC 3000

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROBIOTEC LIMITED

#### Report on the Financial Report

We have audited the accompanying financial report of Probiotec Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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 complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Probiotec Limited would be the same terms if given to the directors as at the time of this auditor's report.

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**MOORE STEPHENS**  
ACCOUNTANTS & ADVISORS

*Opinion*

In our opinion:

- a) the consolidated financial report of Probiotec Limited is in accordance with the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 15 of the directors' report for the year ended 30 June 2013. 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.

*Opinion*

In our opinion, the Remuneration Report of Probiotec Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

Moore Stephens

MOORE STEPHENS  
Chartered Accountants



Nick Michael  
Partner

Melbourne, 22 August 2013

## OTHER INFORMATION REQUIRED BY ASX LISTING RULES

The information in this section is current as at the 17th September 2013.

### Substantial Holders in the entity, as disclosed in substantial holding notices given to the entity

Charles Wayne Stringer	8,675,786 fully paid ordinary shares
Robin Tedder	4,461,110 fully paid ordinary shares

### Holders of each class of equity securities

Security Classes	Holders	Total Units
Fully Paid Ordinary	1,399	52,929,356

### Voting rights attached to each class of equity securities

Each fully paid ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

### Distribution schedule of number of holders of each class of equity securities

Security Classes	Holdings Ranges	Holders	Total Units	%
Fully Paid Ordinary	1-1,000	239	126,650	0.239
	1,001-5,000	528	1,358,727	2.567
	5,001-10,000	222	1,750,114	3.307
	10,001-100,000	340	10,456,081	19.755
	100,001-99,999,999,999	70	39,237,784	74.132
<b>Totals</b>		<b>1,399</b>	<b>52,929,356</b>	<b>100.000</b>

### Holders with less than a marketable parcel of the main class of securities

At the date of this report, a marketable parcel of fully paid ordinary shares was 1,389 or more shares.

Security Classes	Holdings Ranges	Holders	Total Units	%
Fully Paid Ordinary	0 – 1,389	359	270,178	0.510
	1,389 – 99,999,999,999	1,040	52,659,178	99.490
<b>Totals</b>		<b>1,399</b>	<b>52,929,356</b>	<b>100.000</b>

### Company secretaries

The secretary of Probiotec Limited is:

Mr. Jared Stringer

Full details and qualifications for the secretary can be found in the Directors' Report.

## 20 largest holders of each class of quoted equity securities

At the date of this report, there is only one class of quoted equity securities, being fully paid ordinary shares. The 20 largest holders of this class at the date of this report were:

Holder Name	Holding	%
INSTON PTY LTD (STRINGER FAMILY A/C)	4,866,676	9.195
VINTAGE CAPITAL PTY LTD	4,461,110	8.428
MR CHARLES WAYNE STRINGER	2,438,574	4.607
UBS NOMINEES PTY LTD	2,434,567	4.600
GANTER CORPORATION PTY LTD (GANTER FAMILY A/C)	1,993,015	3.765
CITICORP NOMINEES PTY LIMITED	1,476,403	2.789
VBS INVESTMENTS PTY LTD	1,204,260	2.275
TRIFERN PTY LTD (SUPER FUND ACCOUNT)	1,171,589	2.213
MR SCOTT JOHNSTON (JOHNSTON FAMILY S/F A/C)	1,018,255	1.924
INSTON PTY LTD (STRINGER SUPER FUND A/C)	976,295	1.845
NAVIGATOR AUSTRALIA LTD (MLC INVESTMENT SETT A/C)	846,721	1.600
BRAZIL FARMING PTY LTD	810,581	1.531
KOONTA PTY LTD (THE TEDDER FAMILY A/C)	801,224	1.514
INVESTMENT CUSTODIAL SERVICES LIMITED (R A/C)	795,302	1.503
HOLTEX PTY LIMITED (BUCKERIDGE SUPER FUND A/C)	754,924	1.426
HOLTEX PTY LTD (BUCKERIDGE S/F A/C)	693,761	1.311
INGOT CAPITAL INVESTMENTS PTY LTD	667,972	1.262
G J P INVESTMENTS PTY LTD (THE LANGHAM A/C)	637,508	1.204
TAYLOR CO PTY LTD (PETER TAYLOR SUPER FUND A/C)	636,883	1.203
MR HENRY ATHOLL CUNNINGHAM ROBERTSON	506,277	0.957
	<b>29,191,897</b>	<b>55.153</b>

## Registered Office and principal administrative office

The registered office and principal administrative office for Probiotec Limited is:

83 Cherry Lane  
Laverton North  
Victoria 3026  
Ph: (03) 9278 7555

## Register of securities, register of depositary receipts and other facilities for registration or transfer

All registers of securities, registers of depositary receipts and other facilities for registration or transfer are kept at:

Boardroom Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000  
Ph: (02) 9290 9600  
Fax: (02) 9279 0664

## OTHER INFORMATION REQUIRED BY ASX LISTING RULES (continued)

**Other stock Exchanges on which entity's securities are quoted**

Securities in Probiotec Limited are not quoted on any other stock exchange other than the Australian Stock Exchange (ASX).

**Restricted and Escrowed Securities**

At the date of this report no securities were subject to escrow.

**Unquoted Equity Securities**

Security Classes	Holders	Total Units
Fully Paid Ordinary – issued under Employee incentive schemes	13	3,270,000

**On market buy-back**

As at the date of this report, there is no current on market buy-back.

Head office  
Probiotec Limited  
83 Cherry Lane, North Laverton,  
VIC, Australia, 3026

[www.probiotec.com.au](http://www.probiotec.com.au)

